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**CHINESE INVESTMENT IN LATIN AMERICAN PORTS:
THE ECUADORIAN, MEXICAN, AND COLOMBIAN
CASES**

by

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MEXICAN, AND COLOMBIAN CASES**

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ABSTRACT

This thesis analyzes foreign investment in ports, assets and physical spaces that hold great strategic importance politically and economically at the national level and on a global scale. In particular, the thesis focuses on Chinese investment in Latin American ports in the early 2000s, a time when Chinese economic influence in the region expanded considerably. The analysis seeks to explain why there was Chinese investment in ports in Ecuador and in Mexico but not in Colombia during this period, a context in which all three countries had broader economic ties to China. The thesis examines both in the manner in which Latin American ports opened to private and/or foreign investment, and how Chinese companies invest in foreign countries. It argues that the alignment or misalignment of the manner of opening and Chinese investment practices can explain Chinese investment in ports or the lack thereof.

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LIST OF ACRONYMS AND ABBREVIATIONS

AAPA	American Association of Port Authorities
APG	Port Authority of Guayaquil
API	integral port administration (Administracion Portuaria Integral)
APIVER	Administracion Portuaria Integral de Veracruz
APL	American President Lines
APM	AP Moller-Maersk
CMA-CGM	Compagnie Maritime d’Affrètement- Compagnie Générale Maritime
CNODC	China National Offshore Drilling Corporation
COSCO	China Ocean Shipping Company Group Limited
COSCON	COSCO container
CSRC	China Securities Regulatory Commission
DP	Dubai Ports
ECT	European Container Terminal
EIT	Ensenada International Terminal
FDI	foreign direct investment
GDP	gross domestic product
GNP	gross national product
GOC	Government of Colombia
HIT	Hongkong International Terminal
HWL	Hutchison Whampoa Limited
ICA	Ingenieros Civiles Asociadoz
ICAVE	Internacional de Contenedores Asociados de Veracruz
ICTSI	International Container Services Incorporated
IMF	International Monetary Fund
IOPC	individually owner private company
IRCA	International Railways of Central America
JV	joint venture
LCT	Lázaro Cárdenas Terminal
LLC	limited liability corporation

MOF	Ministry of Finance
MOFCOM	Ministry of Commerce
MOFERT	Ministry of Foreign Economic Relations and Trade
MOFTEC	Ministry of Foreign Trade and Economic Cooperation
MPA	Manta Port Authority
NAFTA	North American Free Trade Agreement
NOL	Neptune Orient Lines
NPC	National Planning Commission
NDRC	National Development and Reform Commission
NYK	Nippon Yusen Kaisha
OFDI	overseas foreign direct investment
OOHL	Orient Overseas Holdings Limited
PBC	People's Bank of China
PSA	Port of Singapore Authority
SA	Sociedad Anónima (Company)
SA de CV	Sociedad Anónima de Capital Variable (Variable Capital Company)
SAFE	State Administration for Foreign Exchange
SHCP	Ministry of Treasury and Public Credit
SME	small-to-medium enterprise
SOE	state owned enterprise
SSA	Stevedoring Services of America
TIDE	Terminales Internacionales de Ecuador SA
TIM	Terminal Internaional de Manzanillo
TMM	Mexican Maritime Transport
TNC	transnational corporation
UDEP	Unit for Divestiture of Parastate Entities
UK	United Kingdom
U. S.	United States
U. S. \$	United States dollars
WTO	World Trade Organization

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I. INTRODUCTION

A. MAJOR RESEARCH QUESTION

From as early as the 1970s through the 1990s, there was a wave of neoliberal reform in Latin America to deal with the economic crisis experienced as a result of failed policies. Particular to the countries Ecuador, Mexico, and Colombia, the Mexican government implemented the most aggressive reforms, followed by Colombia and then Ecuador having implementing the least aggressive reforms of the these case countries. Despite the variation in implementation of reforms, all three countries opened their economies to foreign direct investment (FDI),¹ and all three opened their ports to private and foreign investment. Given the differing degrees of aggressiveness in the implementation of reforms, we might we expect to see the most Chinese investment in Mexican ports, followed by Colombian ports, and minimal investment in Ecuadorian ports. While we see the most Chinese investment in Mexican ports and a significant amount of Chinese investment in Ecuadorian ports, we see no investment from China in Colombian ports.

By looking at both the Latin American and Chinese sides of this puzzle, this thesis seeks to explain why in the early 2000s ports in Mexico and Ecuador had significant Chinese investment, while Colombian ports had no Chinese investment, in spite of ongoing high levels of Colombia-Chinese trade. This thesis argues that Chinese investment in the Latin American ports in Ecuador and Mexico and lack of it in Colombian ports can be explained by the alignment or misalignment of how these countries ports opened to foreign investment with how Chinese port management companies invest overseas. Therefore, in the cases of Ecuador and Mexico, it is because their ports were open to 100 percent foreign ownership and that Chinese port

¹ FDI is defined by UNCTAD as a long-term investment that gives lasting interest and control of an enterprise to a resident entity in an economy other than that of the investor. The implication is that the investor has a significant degree of influence and control of the management of the enterprise resident in the other economy. *World Investment Report, 2007: Transnational Corporations, Extractive Industries and Development* United Nations Conference on Trade and Development, 2007, 245.

management companies were looking to invest where it could have 100 percent ownership that led to Chinese investment in Mexican and Ecuadorian ports in the early 2000s.

Chapter I will explain the importance of the topic to include the importance of national sovereignty and how the privatization of ports is a potential way to jeopardize national sovereignty. It will then address some shortcomings in the literature with regard to explaining the Chinese investment or lack of Chinese investment in Latin American ports and finish by presenting the central causal argument of the thesis. Chapter II will give an overview of ports, covering the main types of port management and port investment covering the two types of origins of private international port management companies to help understand expected behavior and decision making with regard to how and where a port management company may decide to invest. Chapter III will look at the Latin American side of the puzzle beginning with an outline of liberal economic reform in Latin America in recent decades, particularly in the three countries under examination. The chapter will follow with Latin America's push to privatize its ports, giving a brief overview of privatization in the ports in Ecuador, Mexico and Colombia showing how the three countries were open to and actively seeking foreign investment in port operations. Chapter IV will look at the Chinese side of the puzzle beginning with an outline of the development of Chinese overseas investment. This will cover the factors influencing Chinese companies looking to invest overseas and coping mechanisms used by these companies to deal with the challenges associated with venturing into a foreign market. Chapter V looks put both sides of the puzzle together to examine Chinese foreign investment in Latin American ports. The thesis conclusion in chapter VI shows how and why Colombia is different and determines the implications of the findings.

B. IMPORTANCE

Most trade in the world is done through maritime transportation, in which ports are central. Foreign—including Chinese—investment in Latin American ports is critical as it potentially affects the national sovereignty of Latin American countries, U.S. interests in the region, and international trade flows and therefore the global economy.

National sovereignty is important in cases of countries privatizing their ports because of the potential of coercive leverage a private enterprise, whether foreign or domestic, can have if it holds a controlling stake in a port. The question of who is in control of a port is important in that the actor in control of maritime infrastructure can make decisions beneficial to the company and/or parent country of the company in control of the infrastructure but detrimental to trade flows which ultimately can have an effect on both regional economies as well as economies around the globe.

In the case of this thesis a foreign company from outside the region, such as a Chinese company in Latin America, investing in a port could use the port in a manner that conflicts with regional interests, as well as national interests and even global interests. While more interdependence between countries often discourages international political demands interdependence for economic reasons can influence support for political demands.²

The Panama Canal illustrates the importance of maritime infrastructure and the question of what actors control maritime infrastructure. The economy and stability of the region and the globe depends on the safe transport of the millions of tons of cargo that transit through the canal every year, as commercial shipping activity through the Panama Canal accounts for roughly five percent of world trade.³ Some have gone so far as to claim that the canal is one of the most important infrastructures in the Western Hemisphere.⁴

Shipping cargo between the Pacific and Atlantic Ocean using the Panama Canal has drastically reduced transport time and cost, for example eliminating the need for ships to go around the southernmost tip of South America. The majority of traffic through the Panama Canal comes from the eastern United States and is destined for the Far East.

² Thomas Lum et al., *Comparing Global Influence: China's and US Diplomacy, Foreign Aid, Trade, and Investment in the Developing World* (CRS Report No. RL34620) (Washington, DC: Congressional Research Service, 2008), 43, <http://fas.org/sgp/crs/row/RL34620.pdf>.

³ "Panama Canal," GlobalSecurity.org, accessed April 01, 2011, <http://www.globalsecurity.org/military/facility/panama-canal.htm>.

⁴ "ACP General Information," Panama Canal Authority, accessed April 01, 2011, <http://www.pancanal.com/eng/general/asi-es-el-canal.html>.

Significant traffic also moves between Europe and western North America. Traffic through the Panama Canal is not limited to these origins or destinations. The remainder of countries and regions including those of Central and South America “are proportionately more dependent on this vital artery to promote their economic development and expand trade.”⁵ The stopping or slowing of cargo transportation through the Panama Canal would likely cause significant increases in transportation costs due to delays, affecting cargo producers, transporters and consumer. Therefore, any disruption in the flow of commerce through the Panama Canal could directly affect global economies.

And indeed the Panama Canal has a long history of being controlled by foreign interests, namely, the U.S. Government. This trajectory has continued. When in 1999 the Panama Canal was transferred from U.S. to Panamanian control, Chinese influence emerged as increasingly important. Panama Ports Company, established in 1997 by the Chinese Port development company Hutchison Port Holdings (HPH), manages two ports on the canal: the Port of Balboa on the Pacific Ocean side, and the Port of Cristobal on the Atlantic Ocean side. Considering Panama Ports Company’s intentions of “carrying out investments of more than U.S. \$1,000 million in both ports to transform them in megaports,”⁶ some fear that through HPH’s control of these two strategically important ports, the Chinese will take control of the Panama Canal based on the interests of China rather than Panama, other countries or the global economy.⁷

In contrast to the case of the Panama Canal, in other instances countries or international organizations have avoided foreign control of ports.⁸ One example was P&O Ports of Australia’s operation of two out of five of the major container ports in

⁵ “This is the Canal,” Panama Canal Authority, accessed April 01, 2011, <http://www.pancanal.com/eng/op/routes.html>.

⁶ “About Panama Ports Company,” Panama Ports Company, accessed April 01, 2011, <http://www.ppc.com.pa/ppc.php>.

⁷ Even though the ports used in my case study may not be considered as strategically important as these ports, the potential effect on international trade is still very relevant. These ports are all a part of the intricate network of global shipping and trade. A disruption in service at any of these ports, no matter the reason, will likely have a negative impact on the global economy.

⁸ I have not seen evidence to support that the reason for the deals not going through in these examples were to avoid foreign influence, neither have I seen evidence to the contrary.

India circa 2000. Subsequently, P&O sought but failed to gain control over the operation of two additional terminals. If P&O had succeeded, it would have controlled at least 75 percent of India's container terminal capacity. Another example is one involving HPH's attempt to "buy a controlling interest" in the Port of Rotterdam's European Container Terminal (ECT.)⁹ In order to prevent HPH from gaining a major market position in the region, the European Commission denied the proposal.¹⁰

Turning to U.S. interests in Latin America, Chinese hard and soft power in Latin America—hard power exhibited by port direct investment—has increased in a region traditionally dominated by U.S. influence. Importantly, China's presence in Latin America should not automatically be determined a "threat" to U.S. interests. Nonetheless, U.S. policy with respect to China's presence in the Western Hemisphere "should focus on ensuring that China acts as a responsible stakeholder that contributes to the region's economic prosperity while respecting the democratic principles that are the guiding values of the Inter-American system."¹¹ To this end, it is necessary to analyze in detail Latin American-China relations surrounding the critical question of ports and thereby inform our understanding of what measures the United States should—or should not—take in the future.

C. SHORTCOMINGS IN THE LITERATURE

Since 2001, the scope of change in the relationship between Latin American political and economic ties with China has been tremendous, moving China from the margin to becoming a prominent player in Western Hemisphere affairs. This development is in line with the goal of some Latin American countries to strengthen its international relationships with new links to Asia, the Middle East, and Africa. This

⁹ Ioannis Nicolas Kessides, *Reforming Infrastructure: Privatization, Regulation, and Competition* (Washington, DC: World Bank Oxford University Press, 2004), 215.

¹⁰ Hutchison already had stakes in the northwestern European ports of Felixstowe, Thamesport, and Harwich.

¹¹ *The New Challenge: China in the Western Hemisphere: Hearing Before the Subcommittee on the Western Hemisphere of the Committee on Foreign Affairs, House of Representatives*, 110th Cong. (2008) (statement of Daniel P. Erikson, Senior Associate for US Policy, Director of Caribbean Programs, Inter-American Dialogue), 9, <http://www.gpo.gov/fdsys/pkg/CHRG-110hhrg42905/pdf/CHRG-110hhrg42905.pdf>.

thesis addresses the question of what explains Chinese investment in the some Latin America's ports. As background for this portion of the thesis, it is important to analyze Latin American countries' relations with China more broadly which this section aims to do.

China has signed agreements with several Latin American countries that demonstrate the significance of China's relations with those countries. There are three levels of agreements in order of significance: strategic partner, cooperative partner, and friendly cooperative relations. China has signed politically significant "strategic partnership agreements" with Brazil (1993), Venezuela (2001), Mexico (2003), and Argentina (2004). According to Domínguez in "China's Relations with Latin America," a country is only labeled a strategic partner if China truly has a meaningful, collaborative relationship with the country and the country is willing to continue to strengthen that relationship.¹² China has also signed "cooperative partnership" or "friendly and cooperative partnership" agreements with Bolivia, Chile, Colombia, Ecuador, and Peru. In this overall context of friendly international relations with China, given the study's focus on ports, it is also important to highlight that the cases in question—Ecuador, Mexico, and Colombia—all have Pacific coastlines, a structural factor facilitating easy trade with China from their ports.

As background regarding Chinese investment in Latin American ports, it is invaluable to describe briefly the economic ties between China and the region. Since China has become the global leader in manufacturing and exporting manufactured goods, its need for natural resources and energy has grown, presenting the opportunity of "resource-rich" Latin American countries such as Colombia, Chile and Peru to expand their export options farther than the United States and the European Union. China has become the largest trading partner for Brazil and Chile, purchasing raw materials. China has a copper development program with Chile and Peru and steel projects in Brazil. In Brazil, Colombia, and Venezuela, China is interested in oil. China is also interested in

¹² Jorge Domínguez, "China's Relations with Latin America: Shared Gains, Asymmetric Hopes" (working paper, Inter-American Dialogue, Washington, DC, 2006), 25.

Brazil for its air plane technology and is interested in investing in it. Brazil also has tourism and industrial capacity of interest to China.

Increased China-Latin America trade has been attractive from the Latin American side as well. Since 1990, Latin American economies have been looking to diversify their trade partners, and China offers great economic opportunities,¹³ including trade diversification, but also foreign direct investment, and low cost imports.¹⁴ China's increased economic growth rate has sent it looking for unexplored markets in addition to providing more resources to develop political alliances globally. As a result of Beijing's encouragement for Chinese companies to "go global" and its subsequent assistance in that process through mechanisms such as government subsidies, China's increase in foreign direct investment activity in countries throughout the world grabbed the attention of both media and other governments in the past decade or so. With the natural resource and foods shortage China has experienced and Latin America being a major producer of primary products, both China and Latin America benefit from trade with each other.¹⁵

Latin American countries that have complementary economies to China have benefitted from China's growth as an important economic actor in the region.¹⁶ Trade levels between China and Latin American countries have increased substantially. In the early 1990s, China was not a significant importer to any Latin American country, and in that decade Peru was the only significant exporter to China. This situation has since changed, as Latin American exports to China have grown from almost U.S. \$3 billion in 1999 to U.S. \$21.7 billion in 2004, an increase of more than 600 percent in only five

¹³ *The New Challenge: China in the Western Hemisphere: Hearing Before the Subcommittee on the Western Hemisphere of the Committee on Foreign Affairs, House of Representatives, 110th Cong* (2008) (statement of Daniel P. Erikson, Senior Associate for U.S. Policy, Director of Caribbean Programs, Inter-American Dialogue) 9, <http://www.gpo.gov/fdsys/pkg/CHRG-110hhrg42905/pdf/CHRG-110hhrg42905.pdf>.

¹⁴ Riordan Roett and Guadalupe Paz, "Introduction: Assessing the Implications of China's Growing Presence in the Western Hemisphere," in *China's Expansion into the Western Hemisphere*, ed. Riordan Roett and Guadalupe Paz (Washington, DC: Brookings Institution Press, 2008), 19.

¹⁵ Jorge Domínguez, "China's Relations with Latin America: Shared Gains, Asymmetric Hopes" (working paper, Inter-American Dialogue, Washington, DC, 2006), 25.

¹⁶ Francisco E. Gonzalez, "Latin America in the Economic Equation-Winners and Losers: What Can Losers Do?" in *China's Expansion into the Western Hemisphere*, ed. Riordan Roett and Guadalupe Paz (Washington, DC: Brookings Institution Press, 2008), 152-153.

years.¹⁷ In 2004, China's top five Latin American import markets were as follows: Brazil (US \$8.7 billion), Chile (US \$3.7 billion), Argentina (US \$3.3 billion), Mexico (US \$2.1 billion), and Peru (US \$1.5 billion). Additionally, in the same year, the top five destinations of China's exports in Latin America were as follows: Mexico (US \$5 billion), Brazil (US \$3.7 billion), Panama (US \$2.2 billion), Chile (US \$1.7 billion), and Argentina (US \$852 million).¹⁸ In 2007 Brazil was China's largest trading partner followed by Mexico, Chile, Argentina, and finally Peru. Venezuela and Colombia are the remaining two countries in China's top seven trading partners list in Latin America.¹⁹

In contrast to these partnerships, China serves as competition for Latin American countries dominated by unskilled, labor-intensive manufacturing. Stiff competition from China has caused these countries, Mexico for example, to experience losses due to loss of market share. They have suffered increasing bilateral trade deficits in trading with China and have lost a portion of their most important market—the United States—to China.

In the case of Mexico, Chinese competition poses a major threat to its markets. Mexico is facing trade deficits. Along with substantial growth in trade in Latin America, Mexico's trade with China increased substantially from 1998 and 2004, and by 2005 Mexico had become China's second largest trading partner with regard to bilateral trade, which continued to increase through 2007.²⁰ Despite the growth in trade between the two countries, Mexico is at a disadvantage since the imbalance of trade between the two countries favors China.²¹ Mexico and China are export competitors in manufacturing, the auto industry, electronics, and clothing. The smuggling of inexpensive Chinese clothing

¹⁷ Kerry Dumbaugh, and Mark P. Sullivan, *China's Growing Interest in Latin America* (Washington, DC: Congressional Research Service, 2005), 1.

¹⁸ Kerry Dumbaugh, and Mark P. Sullivan, *China's Growing Interest in Latin America* (Washington, DC: Congressional Research Service, 2005), 2.

¹⁹ *The New Challenge: China in the Western Hemisphere: Hearing Before the Subcommittee on the Western Hemisphere of the Committee on Foreign Affairs, House of Representatives, 110th Cong* (2008) (statement of Daniel P. Erikson, Senior Associate for U.S. Policy, Director of Caribbean Programs, Inter-American Dialogue,) 10, <http://www.gpo.gov/fdsys/pkg/CHRG-110hhrg42905/pdf/CHRG-110hhrg42905.pdf>.

²⁰ Alejandro Kenny. "China's Presence in Latin America: A View on Security from the Southern Cone," *Military Review* 86, no. 5 (2006): 61.

²¹ Robert Evan Ellis, *China in Latin America: the Whats and Wherefores* (Boulder, CO: Lynne Rienner Publishers, 2009), 200.

into Mexico is a major obstacle for Mexico.²² Mexico used to be the United States' second trading partner; China is now second putting Mexico third.

One central hypothesis that emerges from the literature for explaining why we might observe more or less Chinese investment in Latin American countries in general and specifically in Latin American ports is centered on ideology. The idea is that we would observe greater Chinese investment in a country governed by a left-leaning government than in one governed by a right-leaning one and consequently in that country's ports. However, the majority of growing relationships between Latin American and communist countries since the late 1960s have been economic and not ideological.²³

Looking at Latin America, not limited to my case countries, it is not difficult to see how ideology fails as an explaining factor for the variation in Chinese investment in Latin America and subsequently in their ports. China built and maintained relationships with Latin American governments that opposed communism without partiality for left-wing governments, relationships that were established on the opportunity of diplomatic and economic benefits regardless of what type of regime the country had.²⁴ Concretely, Venezuela's government from the late 1990s to the present has a reputation for being on the far left—due to governance of the country by leftist President Hugo Chavez (1999–2013)—in general and certainly relative to Colombia—due to governance of the country by conservative Andres Pastrana Arango (1998–2002) and Alcaro Uribe Velez (2002–2010)—since the 1990s.²⁵ Despite these contrasting ideological positions, imports and

²² Francisco E. Gonzalez, "Latin America in the Economic Equation-Winners and Losers: What Can Losers Do?" in *China's Expansion into the Western Hemisphere*, ed. Riordan Roett and Guadalupe Paz (Washington, DC: Brookings Institution Press, 2008), 154. Brazil and Argentina, among other countries have complained "that cheap Chinese manufactured goods are replacing those produced domestically." Riordan Roett and Guadalupe Paz, "Introduction: Assessing the Implications of China's Growing Presence in the Western Hemisphere," in *China's Expansion into the Western Hemisphere*, ed. Riordan Roett and Guadalupe Paz (Washington, DC: Brookings Institution Press, 2008), 16.

²³ G. Pope Atkins, *Latin America in the International Political System* (New York: Free Press, 1977), 77.

²⁴ Jorge Domínguez, "China's Relations with Latin America: Shared Gains, Asymmetric Hopes" (working paper, Inter-American Dialogue, Washington, DC, 2006), 3-5.

²⁵ Pablo Heidrich and Diana Tussie, "Post-Neoliberalism and the New Left in the Americas: The Pathways of Economic and Trade Policies," in unpublished paper delivered at the ISA Conference, Chicago, February, 2007, 43–44.

exports between China and Colombia was higher than imports and exports between China and Venezuela during 2001–5.²⁶

Considering, as stated above, that most of the relationship growth between China and Latin American countries since the late 1960s has been based on economic interests and not ideology it would seem that economic pragmatism, and not ideology, then might explain Chinese investment in Latin American ports. However, obvious economically pragmatic factors also cannot explain the observed variation specifically in Latin American ports. For example, one hypothesis that emerges from China's economic relations with Latin America begins with the variation in the extent to which China is in competition with individual countries for markets to sell their products. While China has become an important economic partner for some Latin America countries, for others it has become an economic competitor, depending on the country's available commodities. Generally, countries that are exporters of natural resources have benefited, and countries that are manufacturers such as Mexico have encountered competition from China to their disadvantage.²⁷

One example that demonstrates how this hypothesis falls short is the Peru-China economic relationship and lack of Chinese investment or involvement by China in Peru's ports. It is curious since one of China's interests in Pacific ports is to facilitate shipments

²⁶ Colombia," United Nations International Merchandise Trade Statistics Country Pages, accessed April 01, 2011, <http://comtrade.un.org/pb/CountryPages.aspx?y=2005>; "Peru," United Nations International Merchandise Trade Statistics Country Pages, accessed April 01, 2011, <http://comtrade.un.org/pb/CountryPages.aspx?y=2005>; "Venezuela," United Nations International Merchandise Trade Statistics Country Pages, accessed April 01, 2011, <http://comtrade.un.org/pb/CountryPages.aspx?y=2005>.

²⁷ Francisco E. Gonzalez, "Latin America in the Economic Equation-Winners and Losers: What Can Losers Do?" in *China's Expansion into the Western Hemisphere*, ed. Riordan Roett and Guadalupe Paz (Washington, DC: Brookings Institution Press, 2008), 162–163; *The New Challenge: China in the Western Hemisphere: Hearing Before the Subcommittee on the Western Hemisphere of the Committee on Foreign Affairs, House of Representatives*, 110th Cong. (2008) (statement of Daniel P. Erikson, Senior Associate for US Policy, Director of Caribbean Programs, Inter-American Dialogue), 10, <http://www.gpo.gov/fdsys/pkg/CHRG-110hhrg42905/pdf/CHRG-110hhrg42905.pdf>; Jorge Domínguez, "China's Relations with Latin America: Shared Gains, Asymmetric Hopes" (working paper, Inter-American Dialogue, Washington, DC, 2006), 18.

to China.²⁸ According to Ellis, “the growth of Latin America’s commerce with China is driving an expansion and modernization of the Pacific port infrastructure that carries that commerce.”²⁹

Investing in Peru’s Pacific ports should be attractive to China for a number of reasons. China’s resource hunting is a main determinant in Chinese overseas foreign direct investment (OFDI). China’s interest in Peru’s mining sector is exhibited not only by the fact that 70 percent of Peru’s exports to China are minerals³⁰ but also that Chinese companies are doing the actual mining. For example, in 1992 the Shougang Corporation—one of the largest steel companies in China—bought and took over operations of the Hierro Peru Mining Company.³¹ Additionally, Chinese companies are interested in Peruvian natural gas and oil. In Peru for example, PlusPetrol Norte owns two oil fields in Peru which account for 65 percent of the country’s oil production.³² China National Offshore Drilling Corporation (CNODC) is significant to PlusPetrol Norte, and therefore to Peru’s petroleum industry, with a 45 percent stake in the company.³³ However, the “expansion and modernization of the Pacific port infrastructure,” referred to above, seems to have missed Peru, despite the major trade partnership with China.

Building on this partner versus competitor relationship, we might hypothesize that competitors of China would not welcome Chinese investment in ports. In recognizing the

²⁸ Alejandro Kenny, “China’s Presence in Latin America: A View on Security from the Southern Cone,” *Military Review* 86, no. 5 (Sep, 2006): 61.

²⁹ Robert Evan Ellis, *China in Latin America: the Whats and Wherefores* (Boulder, CO: Lynne Rienner Publishers, 2009), 278.

³⁰ Anthony Bebbington, and Denise Humphreys Bebbington, *An Andean Avatar: Post-Neoliberal and Neoliberal Strategies for Promoting Extractive Industries*, No. 11710 (Manchester, UK: The University of Manchester, 2010), 13, <http://ssrn.com/abstract=1684540>.

³¹ Bing Ren, Hai Liang, and Yeng Zheng, “An Institutional Perspective and the Role of the State for Chinese OFDI,” in *Chinese International Investments*, eds. Ilan Alon, Marc Fetscherin, and Philippe Gugler (Houndmills, Basingstoke, Hampshire: Palgrave Macmillan, 2012), 30; Simon Romero, “Tensions Over Chinese Mining Venture in Peru,” *New York Times, Americas*, August 14, 2010, http://www.nytimes.com/2010/08/15/world/americas/15chinaperu.html?_r=0.

³² Robert Evan Ellis, *China in Latin America: the Whats and Wherefores* (Boulder, CO: Lynne Rienner Publishers, 2009), 150.

³³ Robert Evan Ellis, *China in Latin America: the Whats and Wherefores* (Boulder, CO: Lynne Rienner Publishers, 2009), 150.

negative effects of competition with China, Mexican industry has advocated government protection against the importation of Chinese goods. Additionally, according to Ellis, “the lack of significant Mexican primary-product exports to China, and the competition that has characterized the relationship between these two countries in manufactures, are reflected, likewise, in the relatively limited presence of Chinese companies in Mexico.”³⁴ Consequently, one might expect that Mexico—which has been in competition with China at least since joining the WTO in 2001³⁵—is market competition for China and that China would not be a primary investor in Mexico’s ports.

Negating this hypothesis is the fact that four of Mexico’s main ports, including the ports Ensenada International Terminal (EIT), Terminal Internaional de Manzanillo (TIM) and, Internacional de Contenedores Asociados de Veracruz (ICAVE) beginning in 2001, and Lazaro Cardenas Terminal (LCT) beginning in 2003,³⁶ have been not only been invested in by China, but were under significant Chinese control. Additionally, what is more puzzling is why a Chinese company would invest in the east coast port ICAVE when doing so does not facilitate cheaper transportation of goods to and from China. Considering the Chinese investment in Mexico’s port and examining the extent to which China is in competition with Mexico points out that a strong economic tie and higher trade between China and any particular Latin American country does not correlate with Chinese investment in that country’s ports.

D. ARGUMENT

This thesis will explain why we observe varied outcomes in terms of private investment in ports and, more specifically, Chinese investment in the ports of Ecuador, Mexico and Colombia. Having Chinese investment in the ports in Ecuador Mexico and Colombia depends on the degree that each of these countries’ ports have opened to

³⁴ Robert Evan Ellis, *China in Latin America: the Whats and Wherefores* (Boulder, CO: Lynne Rienner Publishers, 2009), 206.

³⁵ Enrique Dussel Peters, “The Implications of China’s Entry into the WTO for Mexico,” Heinrich Böll Foundation, 2005, 24, accessed April 08, 2011, http://www.cancun2003.org/download_es/GIP-DUSSEL-No24.pdf.

³⁶ “Ports under Mexico,” Hutchinson Port Holdings, accessed December 9, 2010, <http://www.hph.com/globalbusiness/ports.aspx?selgid=7#Section7>.

private foreign direct investment respectively aligning with how Chinese port management companies invest overseas. There are many factors influencing both the Latin American and Chinese sides of this puzzle. From the Latin American side—to do with how Latin American countries opened to foreign investment—factors include the influence on how much a port opens to foreign investment which is particular to each country and to the internal and external forces driving the change to existing policy. From the Chinese—to do with how Chinese companies invest directly in the ports of foreign countries—factors include the influence on how China’s OFDI policy developed which dictates the policy that a Chinese company investing outside of China must follow coupled with both internal and external forces driving locational choices of where a Chinese business will invest. This thesis will show how these factors on both sides of the puzzle have developed in such a way to result in Chinese investment in Ecuadorian and Mexican ports but not in Colombian ports.

Before looking at the two sides of the puzzle, it is important to give an overview of ports which will be done in Chapter II. Then, the Latin American side of the puzzle will be covered in Chapter III. Chapter IV will look at the Chinese side of the puzzle. Chapter V will put both sides of the puzzle together to examine Chinese foreign investment in Latin American ports. And finally, the thesis conclusion in chapter VI will show with how and why Colombia is different and reveal the implications of these findings.

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II. PUBLIC AND PRIVATE INFLUENCE IN THE PORT SECTOR

To understand the issue of port investment and in particular private and foreign port investment, one must first have a basic understanding of what a port is and how it operates. It is important in particular to this thesis to understand the coordination of the port, the role that a port authority—or any other responsible institution—plays in regulating the port, its infrastructure and activities. The first section of this chapter will define what a port is and in particular detail what it means for a port to be public or private or a mixture of public and private, based on the question of what actors control what aspects of ports and port operations and give a brief history of the ownership and operations of ports. The second section will give an overview of the two origins of private port management companies and identify which category the various Chinese port management companies fall. These two sections are crucial to the thesis because they look at both sides of private port management. The first section looks at the type of port management of a given port and the second section looks at the type of port manager. Both of these help to explain the variation that we see in the investment from China (port manager) in Colombian, Ecuadorian and Mexican ports (given ports).

A. PUBLIC, PRIVATE AND MIXED PORTS

In its simplest form, a seaport can be defined as a marina where ships or boats stopover to load and unload cargo.³⁷ For simplicity purposes seaport will be referred to as simply a port in the remainder of this thesis. Many activities take place in a port concurrently to facilitate the continuous entrance, unloading, loading, servicing and exiting of ships. Services required could include infrastructural services namely berth construction, construction of parking for the various means of transportation for the cargo, and construction of loading and unloading zones for the cargo. Superstructural services could be offered to include the provision of cranes to handle cargo, distribution

³⁷ A port can serve as a hub for the connection and transshipment of long haul cargo to be transported more resourcefully by several smaller ships. In the case of a small or difficult to get to shipping destination or origin it may be less expensive for a shipper or a group of shippers to send a bulk shipment to a transshipment center where the shipment is then divided into smaller shipments for different destinations.

centers for processing of goods, stevedoring services³⁸ and storage by warehousing companies. Beyond infrastructural and superstructural services, still other services could include administration of transportation and cargo, management of cargo operations—loading and unloading of cargo—and various services provided by shipbrokers and other agents.³⁹

1. Actors and Services

Several actors could be involved in a port's management and operation. One common actor is a port authority. Port authorities may offer a myriad of services. An acceptable definition of port authorities is “administrative bodies which generally occupy a relatively independent position between state and market and whose administrative structures can vary greatly.”⁴⁰ Port authorities typically have an established relationship with both central and local government as well as with private ventures. These relationships are important as the port authorities are in charge of both the “public management of the port (safety and access) and the private operation (site leasing and superstructure).”⁴¹

Beyond the port authority, other actors are involved in port operations through the provision of services to the vessel and cargo (See Table 1.) For example, an ocean-going vessel almost always requires the assistance of a pilot when approaching a port. The pilot guides the ship to dock at the pier with the aid of tugboats and linesmen. Once the vessel is pier side the unloading and loading of cargo by longshoremen (stevedores) can start.⁴²

³⁸ A stevedore is a dock worker usually loading and unloading cargo from ships.

³⁹ Henrik Stevens, *The Institutional Position of Seaports: An International Comparison*, Vol 51 (New York: Springer, 1999), 51.

⁴⁰ Henrik Stevens, *The Institutional Position of Seaports: An International Comparison*, Vol 51 (New York: Springer, 1999), 4.

⁴¹ Henrik Stevens, *The Institutional Position of Seaports: An International Comparison*, Vol 51 (New York: Springer, 1999), 28.

⁴² Henrik Stevens, *The Institutional Position of Seaports: An International Comparison*, Vol 51 (New York: Springer, 1999), 5.

Table 1. Port Services Examples⁴³

Services to Vessels	Services to Cargo
Piloting	Stevedoring
Towing	Wharf Handling
Mooring	Transfers to land transportation
Dredging	Storage
Utilities	Processing (consolidation, bagging, mixing)
Ship repair	Cargo tracking
Environmental services	Security
	Rental of specialized equipment

2. Historical Role of Port Authority and Private Companies

Prior to the 1980s, many ports were typically owned and managed by a port authority.⁴⁴ At the same time, many private companies managed infrastructural, superstructural and additional services in ports around the globe under contract with the port authority. There was typically no confusion on the distinction of public and private roles as the roles did not vary significantly. However, the distinction between the port authority accounts and local public accounts were not necessarily as clear. For example, the ports in northern Europe, such as Antwerp, Rotterdam and Hamburg, traditionally have been connected with municipalities so much so that in some cases it has been difficult to “disentangle port accounts from local public accounts.”⁴⁵

After the 1980s, stricter public budgets coupled with growing financial requirements in ports have driven many countries to seek private participation in ports. Private involvement in ports had already been somewhat common with regard to provision of services. Not only has there been an increase of private involvement in the provision of services and private involvement in the management of port operations since the 1980s, there has also been an increase in private involvement in the building of port

⁴³ Ioannis Nicolas Kessides, *Reforming Infrastructure: Privatization, Regulation, and Competition* (Washington, DC: World Bank Oxford University Press, 2004), 208.

⁴⁴ Ioannis Nicolas Kessides, *Reforming Infrastructure: Privatization, Regulation, and Competition* (Washington, DC: World Bank Oxford University Press, 2004), 209.

⁴⁵ Lourdes Trujillo and Gustavo Nombela, “Privatization and Regulation of the Seaport Industry” (Research Policy Working Paper 2181, World Bank, Washington, DC, 1999), 4-5.

infrastructures.⁴⁶ Private participation in a port now varies “from minor contracts for private operation and maintenance of state-owned equipment, to wholesale provision of major services, such as terminal operations, to major concession contracts with capital investment elements.”⁴⁷ As a result of increasing private participation in all aspects of port ownership, regulation, and operations even the port authorities are no longer necessarily public institutions. In other words there is private participation in port authorities themselves sometimes making delineation of public and private control in a port unclear.

3. The Four Main Port Models

Ports range from being fully privatized to fully public, though these extremes are uncommon. With most ports in the world the land is publicly owned and regulated but it has some degree of private involvement in operations.⁴⁸ The four main port models, in terms of the public-private balance, from most public to most private are public service ports, landlord ports, tool ports, and private ports.⁴⁹

A public service port implicitly has no private sector involvement, and all the three elements (port regulation, land, and operation) are controlled by the government or

⁴⁶ The trend of private investors improving port infrastructure stems from neoliberal reform in Latin America, to include in ports, which commonly sought private investment to help update and improve port infrastructure.

⁴⁷ A concession is a grant of land or other property especially from a government in return for services rendered or proposed or for a particular use. According to Smith, the World Bank identifies that from 1990 through 1998, there were 112 major port projects with private participation in developing countries, totaling more than \$9 billion in investment commitments, primarily in Latin America and Asia, with Brazil, China, and Argentina each having 12 or more major projects. Arthur L. Smith, “Privatization of Water Transportation Systems,” Management Analysis, Incorporated (Paper presented at the Proceedings of the 2nd International Congress on Maritime Technological Innovations and Research, University of Cadiz, Spain, 2000), 4, accessed December 9, 2010, http://ncppp.org/councilinstitutes/smith_privatewatertranssys.pdf.

⁴⁸ Arthur L. Smith, “Privatization of Water Transportation Systems,” Management Analysis, Incorporated (Paper presented at the Proceedings of the 2nd International Congress on Maritime Technological Innovations and Research, University of Cadiz, Spain, 2000), 3, accessed December 9, 2010, http://ncppp.org/councilinstitutes/smith_privatewatertranssys.pdf.

⁴⁹ Ioannis Nicolas Kessides, *Reforming Infrastructure: Privatization, Regulation, and Competition* (Washington, DC: World Bank Oxford University Press, 2004), 209.

public authority through the local port authority.⁵⁰ The port authority owns, maintains, and operates all assets in the port. However, cargo-handling operations are typically carried out by private labor contracted by the port authority.⁵¹ In other words, public service ports' operations include the provision of a range of services under the management of a port authority though some of the services can be provided by private companies, as indicated in Table 2. Examples of public seaports can still be found in Israel, India and in some African countries.

Table 2. Privatization Models⁵²

Port Models	Admini- stration	Nautical Infra-	Port Infra- structure	Super- structure	Cargo Handling	Pilotage	Towage	Moorage Services	Dredging	Other
Public	Public	Public	Public	Public	Public	Mixed	Mixed	Mixed	Mixed	Mixed
Tool	Public	Public	Public	Public	Private	Mixed	Mixed	Mixed	Mixed	Mixed
Landlord	Public	Public	Mixed	Private	Private	Private	Mixed	Mixed	Mixed	Mixed
Private	Private	Private	Private	Private	Private	Mixed	Private	Private	Mixed	Mixed

⁵⁰ Li Nan, Han Yiqun, and Xu Yuan, "Privatization and Deregulation of the Seaport Industry: Economic Analysis and Policy Choice," *Journal of the Macao Polytechnic Institute* no. 1, Serial no. 3 Part 1 (2009): 141. See this source for more on three elements: Arthur L. Smith, "Privatization of Water Transportation Systems," Management Analysis, Incorporated (Paper presented at the Proceedings of the 2nd International Congress on Maritime Technological Innovations and Research, University of Cadiz, Spain, 2000), 3, accessed December 9, 2010, http://ncppp.org/councilinstitutes/smith_privatewatertranssys.pdf.

⁵¹ According the World Bank, "Public service ports are usually controlled by (or even part of) the Ministry of Transport (and/or Communications) and the chairman (or director general) is a civil servant appointed by, and/or directly reporting to, the minister concerned. Among the main functions of a service port are cargo-handling activities. In some developing country ports the cargo-handling activities are executed by a separate public entity, often referred to as the "cargo handling company." Such public companies usually report to the same ministry as the port authority. To have public entities with different and sometimes conflicting interests reporting to the same Ministry, and forced to co-operate in the same operational environment, constitutes a serious management challenge. For this reason the port authorities and cargo handling companies of Mombassa, Kenya, and Tema, and Takoradi, Ghana, were merged into one single entity." World Bank, *Port Reform Toolkit* (Washington, DC: World Bank Publications, 2003), 17.

⁵² World Bank, *Port Reform Toolkit* (Washington, DC: World Bank Publications, 2003), 17.

Tool ports and landlord ports have more private participation than public service ports. The difference between the tool and landlord ports is that the tool port has more public participation and less private participation than the landlord port. Similar to the public service ports, in the tool port the port authority owns, develops and maintains the port infrastructure and superstructure and it generally operates all the equipment it owns in the tool port.

On the other hand, the landlord port has more private involvement in the port than the tool port.⁵³ The function of the port authority in the landlord port model includes port management, maintenance and development, therefore it supplies the necessary infrastructure and facilities and policy implementation.⁵⁴ What is different under the tool port model is that the port authority makes land and superstructures available to private cargo-handling companies that are licensed by the port authority, and they execute cargo operations on board the vessel as well as on the quay or dock.⁵⁵

Finally, in the private port model—unlike the other three port models—the port is fully privatized and the land that the port is on is fully privately owned. In addition to the land being transferred from the public to the private sector, the government may also transfer the regulatory functions to the private successor companies. The few ports of this type are located mainly in the United Kingdom and New Zealand.⁵⁶

a. Landlord Ports in Latin America

The ports examined in this thesis, covered in chapter III, fall into the category of a landlord port. This section will provide a more detailed background on the landlord port model to further the argument of the thesis.

⁵³ World Bank, *Port Reform Toolkit* (Washington, DC: World Bank Publications, 2003), 11.

⁵⁴ Patrick Verhoeven, “A Review of Port Authority Functions: Towards a Renaissance?” *Maritime Policy & Management: The Flagship Journal of International Shipping and Port Research*, 37:3 (2010): 253.

⁵⁵ World Bank, *Port Reform Toolkit* (Washington, DC: World Bank Publications, 2003), 17; “Ports Autonomes” in France is an example of a container terminal managed and operated as a tool port.

⁵⁶ World Bank, *Port Reform Toolkit* (Washington, DC: World Bank Publications, 2003), 18–19.

In the landlord model, the port authority is a regulatory entity as well as a landlord. In other words, the government has no involvement in the port other than in matters pertaining to security of the port and environmental regulation to control pollution.⁵⁷ While port and land regulation is the responsibility of the public sector, the private sector is dominant in the regulation of port operations. The port authority leases infrastructure—such as a refinery, a tank terminal or a chemical plant—to private companies and/or private industry that execute all of the port operations.⁵⁸ The private port operators provide and maintain their own superstructure as well as purchase and install the necessary equipment⁵⁹ on the terminal grounds. At a landlord port dock, labor is typically hired by the private terminal operator.⁶⁰ See Table 2 for a detailed delineation of public and private responsibility in the landlord port. This model is common particularly in North American European and Latin American seaports.⁶¹

The shift from public to more private participation in ports since the 1980s has certainly been evident in many Latin American countries in that most major ports in Latin America that were once state owned have been sold to private companies.⁶² Similar to global trends, most ports in Latin America use the landlord port model whereby the port infrastructure is owned by the port authority, and the superstructure is put up for

⁵⁷ Li Nan, Han Yiqun, and Xu Yuan, “Privatization and Deregulation of the Seaport Industry: Economic Analysis and Policy Choice,” *Journal of the Macao Polytechnic Institute* no. 1, Serial no. 3 Part 1 (2009): 141.

⁵⁸ World Bank, *Port Reform Toolkit* (Washington, DC: World Bank Publications, 2003), 18. Examples of landlord ports are Rotterdam, Antwerp, New York and, since 1997, Singapore. Today the landlord port is the dominant port model in larger and medium sized ports.

⁵⁹ Necessary equipment would be determined by what is required by their business (e.g., quay cranes, transtainers, conveyor belts.)

⁶⁰ World Bank, *Port Reform Toolkit* (Washington, DC: World Bank Publications, 2003), 18.

⁶¹ Li Nan, Han Yiqun, and Xu Yuan, “Privatization and Deregulation of the Seaport Industry: Economic Analysis and Policy Choice,” *Journal of the Macao Polytechnic Institute* no. 1, Serial no. 3 Part 1 (2009): 141.

⁶² Alejandro Micco and Natalia Perez, “Maritime Transport Costs and Port Efficiency” (Seminar “Towards Competitiveness: The Institutional Path,” Annual Meetings of the Board of Governors, Inter-American Development Bank and Inter-American Investment Corporation, Santiago, Chile, March 16, 2001): 28; Sydney Cass and Hugh O’Mahony, “Port Privatisation: Process, Players and Progress” (London, UK: Integrated Intelligent Research Publications, 1996): 116, 209. Importantly, some major ports such as several in India and Sri Lanka have remained public service type ports. Ioannis Nicolas Kessides: *Reforming Infrastructure: Privatization, Regulation, and Competition* (Washington, DC: World Bank Oxford University Press, 2004), 209.

concession to a private company.⁶³ Most general, non-specialized ports⁶⁴ have already been concessioned to be operated privately. In addition, many specialized ports are under private ownership or are leased.

Some regions, including Latin America, are more apprehensive about private monopolies than others. In Latin America, this apprehension is driven by historical damage resulting from the economic power of a small number of powerful families or foreign multinational companies. In Central America in the 1950s Bulmer-Thomson describes foreign companies in insurance and shipping that “operated price-fixing cartels, which did not endear them to the local population.” Specifically in transportation the example is provided in Guatemala of price discrimination by International Railways of Central America (IRCA) to shift external trade toward the Atlantic coast Puerto Barrios—a port controlled by IRCA’s parent company United Fruit Company.⁶⁵ Therefore, unlike some ports in Britain, fully privatized ports in Latin America are not foreseen. We can expect, however, that existing common user ports will remain landlord ports, though new ports may take on different forms.

To avoid private monopolies in Latin American ports, both domestic and international port operating companies control many of the comparatively small ports as well as terminals within ports creating competition between the ports and terminals.⁶⁶ For example, the port in Buenos Aires does not permit an existing concessionaire to become the concessionaire over another terminal due to the advantage it may give that

⁶³ Alejandro Micco and Natalia Perez, “Maritime Transport Costs and Port Efficiency” (Seminar “Towards Competitiveness: The Institutional Path,” Annual Meetings of the Board of Governors, Inter-American Development Bank and Inter-American Investment Corporation, Santiago, Chile, March 16, 2001): 28.

⁶⁴ A general, non-specialized port is a port containing a terminal or multiple terminals that have the infrastructure to support the movement of cargo of all types. A specialized port has the infrastructure to support the movement of one type of cargo. For example, a container port is a specialized port is a terminal or multiple terminals equipped with container handling equipment and would not be equipped to handle break bulk cargo, for example. The ports in my case countries are specialized container ports or container terminals with in a port.

⁶⁵ Victor. Bulmer-Thomas, “The Economic History of Latin America Since Independence,” Volume 77 of *Cambridge Latin American Studies* (Port Chester, NY: Cambridge University Press, 2003), 105.

⁶⁶ Antonio Estache, Marianela Gonzalez, and Lourdes Trujillo, “Efficiency Gains from Port Reform and the Potential for Yardstick Competition: Lessons from Mexico,” *World Development* 30, no. 4 (2002): 545.

concessionaire over another. In Peru, Lima's general cargo flows through its only port, Callao. Before putting it up for concession, the port is scheduled to be split into two or three terminals to encourage competition before it is allowed to be concessioned.⁶⁷

With the transition of ports to private ownership since the 1980s, the need for private port and terminal management companies emerged. Subsequently the number of private port management companies—international companies in particular—has grown to fulfil this need. The following section addresses the two types of port management companies. The first—already in existence to a large degree—is the ocean carrier type. The second—which came about mainly with the increasing demand mentioned above—is the “pure” port management type.

B. PRIVATE PORT MANAGEMENT COMPANIES

In order to gain a general understanding of how a private Chinese port management company determines which ports to invest in, first we must understand the origins of the port management company since it influences the business strategy of the company addressed in this section. After delineating the two port management company types we will identify the private port management companies that are examined for this thesis using the following criteria: 1) the port management company is Chinese⁶⁸ and 2) the port management company has significant investments in ports outside of China. Using the difference in origins and therefore business strategy, the section will then suggest how and why their choice in location may differ. The combination of expected private port management behavior from this section and expected behavior of Chinese investment companies looking to invest overseas (discussed in chapter IV) will be used in the conclusion chapter to explain how the companies actually made their port choices.

⁶⁷ Jan Hofmann, “Latin American Ports: Results and Determinants of Private Sector Participation,” *International Journal of maritime economics*, 3 no. 2 (2001); 224.

⁶⁸ For the purpose of this thesis port management companies headquartered in mainland China, Hong Kong or Taiwan are considered Chinese.

There are generally two types of a private port management company. One type is that of an ocean carrier⁶⁹ that enters into the business of managing container terminals serving to protect the ocean carrier's usual trade routes from outside competition.⁷⁰ The ocean carrier port management companies—dating back to the 1960s—base decisions for where to invest and operate largely on where it is advantageous for the affiliated ocean carrier, while taking into account external opportunities for investment. Examples of port management companies that entered as an ocean carrier include AP Moller-Maersk (APM), Terminal Evergreen Marine Corporation (Evergreen) and China Ocean Shipping Company (COSCO) Pacific. COSCO Pacific is one Chinese port management company in focus for this thesis. Evergreen is a Chinese port management company but is not in focus for this thesis since it only has operations in two countries outside of China.⁷¹

The other type is the pure port management company. With a few exceptions, this type came about far more recently with the institutional change of port privatization in the 1990s.⁷² The increasing need for private port and terminal management companies encouraged the development of transnational corporations (TNCs) as private international terminal and port operators to manage the operations of container terminals and ports throughout the world.⁷³ Pure port management companies base decisions for where to invest and generally operate purely on the objectives of the company needs taking into account external opportunities for investment. Examples of this type include HPH, Port

⁶⁹ An ocean carrier is a company that operates vessels to perform the carriage of goods by way of the sea and is also known as a shipping line. An ocean carrier arranges all movement of vessels, under the ocean carriers management, from port to port with the purpose of moving cargo. It is also known as a shipping line. The ocean carrier may or may not own ships.

⁷⁰ Daniel Olivier, Francesco Parola, Brian Slack and James J. Wang, "The Time Scale of Internationalisation: The Case of the Container Port Industry," *Maritime Economics & Logistics*, 9 (2007): 7.

⁷¹ "Global Transshipment Hubs," Evergreen Marine Corporation, accessed October 25, 2014, http://www.evergreen-marine.com/tbi1/jsp/TBI1_GlobalTranHub.jsp.

⁷² Daniel Olivier, Francesco Parola, Brian Slack and James J. Wang, "The Time Scale of Internationalisation: The Case of the Container Port Industry," *Maritime Economics & Logistics* 9 (2007): 4.

⁷³ Daniel Olivier, Francesco Parola, Brian Slack and James J. Wang, "The Time Scale of Internationalisation: The Case of the Container Port Industry," *Maritime Economics & Logistics* 9 (2007): 2. For a history on the evolution of private port management companies see Daniel Olivier, Francesco Parola, Brian Slack and James J. Wang, "The Time Scale of Internationalisation: The Case of the Container Port Industry," *Maritime Economics & Logistics*, 9 (2007): 7.

of Singapore Authority (PSA) International, New World Holdings Company, P&O Ports, China Merchant Holdings International, Neptune Orient Lines (NOL), American President Lines (APL), and Dubai Ports (DP) World. HPH is the other Chinese port management company in focus for this thesis contrary to the remaining Chinese port management companies since they have limited operations outside of China.⁷⁴ See Table 3 for examples of both types of port management companies.

The differences, important to this thesis, discussed above in the two types of port management deal with how the company entered the port management market which will influence the company's business strategy and subsequently will influence locational choice of port management companies.⁷⁵

Table 3. Leading Port Management Companies in 2005⁷⁶

Port Management Company	Country	Type
HPH	Hong Kong (China)	Pure
APM	Denmark	Pure
PSA	Singapore	Pure
China Merchant Holdings	Hong Kong (China)	Pure
P&O Ports	UK	Pure
COSCO Pacific	Hong Kong (China)	Pure
Dubai Ports World	United Arab Emirates	Pure
Eurogate/Eurokai Group	Germany	Pure
Evergreen	Taiwan (China)	Ocean Carrier
Mediterranean Shipping Co	Switzerland	Ocean Carrier
SSA Marine	US	Pure
New World Holdings	Hong Kong (China)	Pure
Hamburger Hafen LA	Germany	Pure
NOL/APL	Singapore	Ocean Carrier
Modern Terminals Limited	Hong Kong (China)	Pure

⁷⁴ Specifically, China Merchant Holdings focuses its business in China and has limited port operations outside of China. New World Holdings Company similarly focuses its business in mainland China, Hong Kong and Macau. Modern Terminals International only has business in Hong Kong and mainland China.

⁷⁵ Daniel Olivier, Francesco Parola, Brian Slack and James J. Wang, "The Time Scale of Internationalisation: The Case of the Container Port Industry," *Maritime Economics & Logistics* 9 (2007): 15.

⁷⁶ Daniel Olivier, Francesco Parola, Brian Slack and James J. Wang, "The Time Scale of Internationalisation: The Case of the Container Port Industry," *Maritime Economics & Logistics* 9 (2007): 8.

Port Management Company	Country	Type
Hanjin Shipping	South Korea	Ocean Carrier
OOCL	Hong Kong (China)	Ocean Carrier
Nippon Yusen Kaisha (NYK) Line	Japan	Ocean Carrier
Dragados	Spain	Pure
CMA-CGM	France	Ocean Carrier

C. CONCLUSION

The entities that have an influence on the port are significant because these are the entities in control of the port and its operations. This chapter outlined the public and private influence on the port sector. Specifically it defined public, tool, landlord and private ports delineating the degree of involvement in each type of port. The public port authorities provide more services and oversight in the public port and to a gradually lesser degree provide services in the tool and landlord ports and very little or no provision of services in private ports.

Considering the private port management aspect of the puzzle of this thesis, the chapter then gave an overview of the development of two types of private port management companies—ocean carrier port management companies and the “pure” port management company—in order for us to understand the nature of investment behavior that is expected and common to the type of port management company it is. The ocean carrier type tends to locate its operations in cities where the ocean carrier shipping line has established trade routes. On the other hand the “pure” port management company tends to locate its operations based on its business strategy. HPH and COSCO were identified as the Chinese port management companies relevant to this thesis considering these companies both fit the criteria of being a Chinese company and having significant overseas investments in ports during the early 2000s. These companies coupled with the ports they invested in will be further examined in chapter V.

III. PRIVATIZATION AND FOREIGN DIRECT INVESTMENT IN THE PORTS OF COLOMBIA, ECUADOR AND MEXICO

To understand foreign private investment in Latin American ports, it is important to situate it within the broader context of liberal economic reform in the region. Chapter III aims to give an overview of neoliberal reform in Latin American. It will focus specifically on privatization and opening to foreign investment, particularly in my case countries, Ecuador, Mexico, and Colombia. Neoliberal reform, and in particular privatization and opening to FDI, is important to this thesis because the approach a country takes in privatizing and opening to foreign investment has an impact on the degree it opens to foreign investment. The degree of openness to investment is a determinant of who invests. Not only is this true of Latin America in general, it also applies specifically to investment in its ports.

This chapter begins with an overview of economic policy in Latin America from the 1930s to the 1990s. This is followed by a detailed description of neoliberal reform, privatization, and opening to FDI in my case countries, Ecuador, Mexico, and Colombia.

The description of Ecuador, Mexico, and Colombia's ports privatizing and opening to foreign investment in chapter III relies on an understanding of the definition of the different types of ports and those involved in the management and operations of a port given in chapter II. The explanation of how privatization and opening to foreign investment in my country cases and particularly in their ports in chapter III will give background to the Latin American side of my research while Chapter IV will provide the Chinese background to include Chinese OFDI policy development followed by Chinese overseas investments. These chapters will provide the foundation for answering the question of my thesis in chapter V, "why do we observe significant Chinese investment in the ports of Ecuador and Mexico, but not in Colombian ports, in spite of the significant degree of Colombia-Chinese trade?"

A. OVERVIEW OF ECONOMIC POLICY IN LATIN AMERICA FROM THE 1930S TO THE 1990S WITH A FOCUS ON NEOLIBERAL REFORM

In Latin America (see Figure 1) from the 1930s to the 1990s the state served as a crucial economic actor. This role was characterized by markets that were regulated heavily by the government, including price controls and barriers to international trade, such as taxes and tariffs. During that time, economic policy focused on “state-led industrialization” with the goal of increasing growth in the economy. Public enterprises were expected to handle externalities in a resourceful manner, to address the concerns of the public, lessen the exposure to outside shocks, and encourage growth in the economy.⁷⁷ However, there was a failure of the existing policies in handling money shortages which left Latin American countries with fiscal deficits, trade deficits, and debt services. This economic crisis in Latin America encouraged neoliberal policies to be considered even by those previously advocating nationalism and prompted economic reform mainly in the 1980s and 1990s, though some countries, such as Chile began reform as early as the 1970s.⁷⁸

⁷⁷ Maria Victoria Murillo, “Political Bias in Policy Convergence: Privatization Choices in Latin America,” *World Politics* 54, no. 4 (2002): 464.

⁷⁸ Maria Victoria Murillo, “Political Bias in Policy Convergence: Privatization Choices in Latin America,” *World Politics* 54, no. 4 (2002): 465.



Figure 1. Map of Latin America

The damage resulting from this crisis pressed governments into dealing with the risks associated with neoliberal reforms and further eroded resistance to privatization by lessening the attraction of financially strained state-owned enterprises for suppliers, workers, and unsatisfied consumers.⁷⁹ The goal of the economic reforms of the 1980s and 1990s was to have a free market with minimal regulation by the government. Measures implemented in this regard were trade liberalization, privatization of the public sector, and deregulation.⁸⁰

Some Latin American governments, such as those in Argentina, Chile, Mexico and Peru, implemented more aggressive reform while other governments, such as

⁷⁹ Maria Victoria Murillo, "Political Bias in Policy Convergence: Privatization Choices in Latin America," *World Politics* 54, no. 4 (2002): 465; Laurence Whitehead, *Latin America: A New Interpretation* (Gordonsville, VA: Palgrave Macmillan, 2006), 164.

⁸⁰ Luciano Martinez Valle, "Endogenous Peasant Responses to Structural Adjustment" in *Rural Progress, Rural Decay: Neoliberal Adjustment Policies and Local Initiatives*, eds. Lisa L North and John D. Cameron (Bloomfield, CT: Kumarian Press, Incorporated, 2003), 86.

Ecuador, Paraguay and Venezuela implemented more cautious reforms.⁸¹ For example, the governments of Chile and Mexico sold off their state-owned enterprises in the mid-1980s and soon after most Latin American public sector enterprises were sold to the private sector.⁸²

Chile led economic reform in Latin America beginning in the 1970s. The governments of many Latin American countries followed Chile's example by opening their countries to foreign investment. This included sectors that were not previously open such as telecommunications, petroleum exploration, and power generation and distribution.⁸³ Other Latin American countries implemented economic reform at varying times.

Of the countries examined in this thesis, Mexico was a more aggressive reformer and Colombia and Ecuador less so. Ecuador was the least aggressive reformer of the four. Nonetheless, in the 1980s and 1990s all three countries to a substantial degree opened up their economies to FDI following the 1982 debt crisis.⁸⁴

1. Privatization in Latin America

Privatization spread across Latin America as both a way to improve short-term revenue and to use private capital markets to fund economic reconstruction.⁸⁵ Rapid deregulation, privatization, and growth of private land markets drove an increase in poverty and a decrease in the domestic food supply. According to Valle, the conventional

⁸¹ Luciano Martinez Valle, "Endogenous Peasant Responses to Structural Adjustment" in *Rural Progress, Rural Decay: Neoliberal Adjustment Policies and Local Initiatives*, eds. Lisa L North and John D. Cameron (Bloomfield, CT: Kumarian Press, Incorporated, 2003), 86; Javier Corrales, "The Backlash Against Market Reforms in Latin America in the 2000s," in *Constructing Democratic Governance in Latin America*, 2nd ed. Jorge I. Domínguez and Michael Shifter, eds. (Baltimore, MD: Johns Hopkins University Press, 2003), 91.

⁸² John Nellis, Rachel Menezes, and Sarah Lucas, "Privatization in Latin America. The Rapid Rise, Recent Fall, and Continuing Puzzle of a Contentious Economic Policy," *Center for Global Development; Policy Brief* 3, no. 1 (2004): 1.

⁸³ Werner Baer, and William Maloney, "Neoliberalism and Income Distribution in Latin America," *World Development* 25, no. 3 (1997): 314.

⁸⁴ Manuel Agosin, *Foreign Direct Investment in Latin America* (Washington, DC: Inter-American Development Bank, 1995), 4–5.

⁸⁵ Laurence Whitehead, *Latin America: A New Interpretation* (Gordonsville, VA: Palgrave Macmillan, 2006), 165.

solutions were to face the developing rural crisis by implementing heavier reforms of the type already being implemented.⁸⁶ This meant the continuing privatization of whatever enterprises were still public, making financial markets even more liberal, getting rid of all barriers to foreign investment and trade, and boosting agricultural exports. Figure 2 depicts accumulated revenues from privatization from 1990 to 1997.

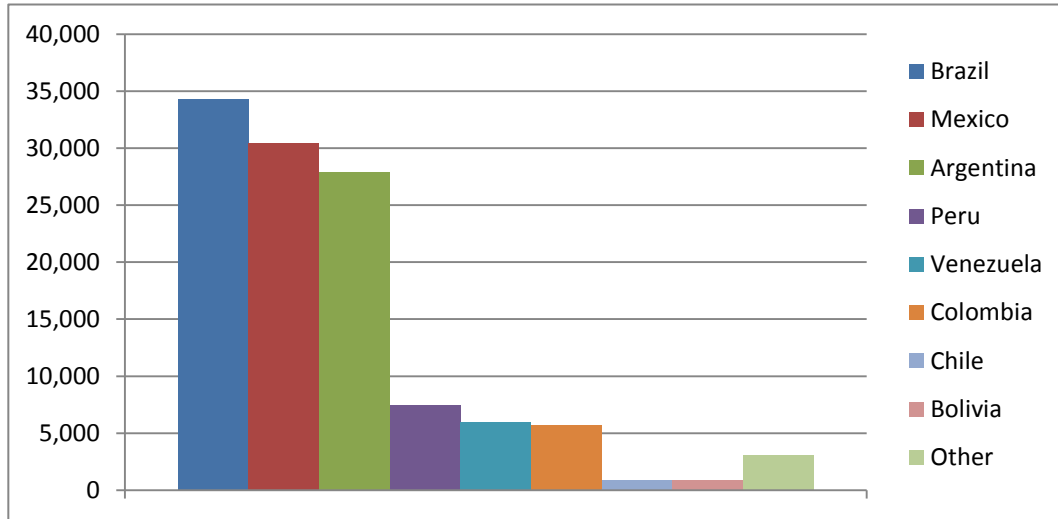


Figure 2. Privatization in Latin America and the Caribbean Revenues, 1990–1997 (Millions of U.S. Dollars)⁸⁷

While privatization continued throughout Latin America, its implementation differed dramatically within Latin America from country to country and from sector to sector. Countries including Ecuador, Nicaragua and Uruguay privatized significantly less in the 1990s than many other Latin American countries even though these countries had large state owned enterprise (SOE) sectors. On the other hand, countries including Argentina and Peru raised funds totaling more than 10 percent of their respective gross

⁸⁶ Luciano Martinez Valle “Endogenous Peasant Responses to Structural Adjustment” in *Rural Progress, Rural Decay: Neoliberal Adjustment Policies and Local Initiatives*, eds. Lisa L North and John D. Cameron (Bloomfield, CT: Kumarian Press, Incorporated, 2003), 87.

⁸⁷ Francisco L. Rivera-Batiz, “Foreign Direct Investment in Latin America: Current Trends and Future Prospects,” *United Nations Economic and Social Commission for Asia and the Pacific, Studies in Trade and Investment* no. 43 (2000): 166.

domestic products (GDPs) from comprehensive privatization programs.⁸⁸ Some countries—including Mexico, Argentina, Chile, Brazil, and Bolivia—began privatizing small and medium firms⁸⁹ quickly, developing their programs.⁹⁰

With the implementation of neoliberal reform across Latin America in the 1980s and 1990s, countries in Latin America experienced a tremendous inflow of FDI.⁹¹ In fact, in Latin America, FDI inflows increased almost four-fold since 1985.⁹² FDI became Latin America's biggest source of foreign capital at the turn of the century surpassing what was earned through "emerging stock markets, bank borrowing and other forms of external finance."⁹³

2. Foreign Direct Investment in Latin America

Naturally, in the privatization process, there will be an important international aspect. Privatization involves vital inflows of FDI. In addition to investing in the capital of the company, foreign investors commonly take over operations of a company. In Latin America FDI flows, in terms of GDP, changed substantially. In 1989, it was 0.3 percent and then it grew to 6.9 percent in 1999.⁹⁴ It was in the late 1980s that most Latin

⁸⁸ Eduardo Lora, *State of State Reforms in Latin America* (Herndon, VA: World Bank Publications, 2006), 271.

⁸⁹ Including large infrastructure and energy firms.

⁹⁰ Eduardo Lora, *State of State Reforms in Latin America* (Herndon, VA: World Bank Publications, 2006), 271.

⁹¹ Manuel Agosin, *Foreign Direct Investment in Latin America* (Washington, DC: Inter-American Development Bank, 1995), 1. "The inflow of FDI represents investments made by foreign residents (usually foreign firms) in a particular country over a certain period of time with the purpose of acquiring a lasting management interest in the affairs of the enterprise in which the funds are invested. FDI thus involves some long-term foreign ownership or control over the decisions made by domestic firms receiving the foreign capital." Francisco L. Rivera-Batiz, "Foreign Direct Investment in Latin America: Current Trends and Future Prospects," *United Nations Economic and Social Commission for Asia and the Pacific, Studies in Trade and Investment* no. 43 (2000): 162.

⁹² Manuel Agosin, *Foreign Direct Investment in Latin America* (Washington, DC: Inter-American Development Bank, 1995), 4.

⁹³ Francisco L. Rivera-Batiz, "Foreign Direct Investment in Latin America: Current Trends and Future Prospects," *United Nations Economic and Social Commission for Asia and the Pacific, Studies in Trade and Investment* no. 43 (2000): 161.

⁹⁴ Jorge Carrera, Daniele Checchi, and Massimo Florio, "Privatization Discontent and Its Determinants: Evidence from Latin America" (working paper, IZA Discussion Papers 1587, Bonn, Germany: IZA Institute for the Study of Labor, 2005,) 14–15.

American countries removed barriers to foreign involvement in services or strategic companies. After the restrictions were removed, privatization attracted a significant amount of foreign capital. Mexico's privatization process was enormous in scope as well as amazingly successful in limiting the part the state played in a formerly "interventionist economy."⁹⁵ By mid-1992 more than 350 of nearly 1,200 SOEs had been sold to the private sector.⁹⁶

However, the increase has not been distributed equally throughout Latin America. Argentina, Chile, Colombia, Mexico, and Venezuela are the recipients of a good part of the FDI inflow. Almost all of Latin American countries have liberalized regulations of FDI to a large degree so much so that countries no longer aim to regulate international ventures but instead compete with one another to see what foreign firms they can attract to invest in their respective countries.⁹⁷

Lack of trust in FDI and in international countries in the 1970s manifested through heavy and strict regulation. In the 1970s and 1980s, FDI flows fluctuated but did not have a clear tendency to rise. In the early 1990s, however, many of these regulations were withdrawn and transformed in order to actively try to attract foreign investment by ways of the increasing liberalization in all areas related to international companies' actions in the host countries. The result in the 1990s was that FDI increased substantially.⁹⁸

This is true throughout most of Latin America although the timing of liberalization varied slightly from country to country. Additionally, this trend is not isolated to the countries that have received the highest inflows of FDI. Countries like

⁹⁵ Eduardo Lora, *State of State Reforms in Latin America* (Herndon, VA: World Bank Publications, 2006), 269–270.

⁹⁶ Eduardo Lora, *State of State Reforms in Latin America* (Herndon, VA: World Bank Publications, 2006), 270.

⁹⁷ Manuel Agosin, *Foreign Direct Investment in Latin America* (Washington, DC: Inter-American Development Bank, 1995), 1–2.

⁹⁸ Francisco L. Rivera-Batiz, "Foreign Direct Investment in Latin America: Current Trends and Future Prospects," *United Nations Economic and Social Commission for Asia and the Pacific, Studies in Trade and Investment* no. 43 (2000): 162.

Argentina and Chile made changes as early as the mid-1970s whereas countries like Colombia, Mexico, Peru and Venezuela made changes in the mid-1980s.⁹⁹

In terms of the levels of FDI in flow into Latin American countries, the increase in FDI has not been equal in the region. Between 1991 and 1998, as shown in Figure 3, Brazil and Mexico, by far, received the most FDI in Latin America.¹⁰⁰ Following Brazil and Mexico are Argentina, Chile, Venezuela and Colombia. Combined, these countries received at least 80 percent of FDI inflows to Latin America in 1998. On the other hand, countries such as Bolivia and Ecuador have not had such an increase in FDI.¹⁰¹

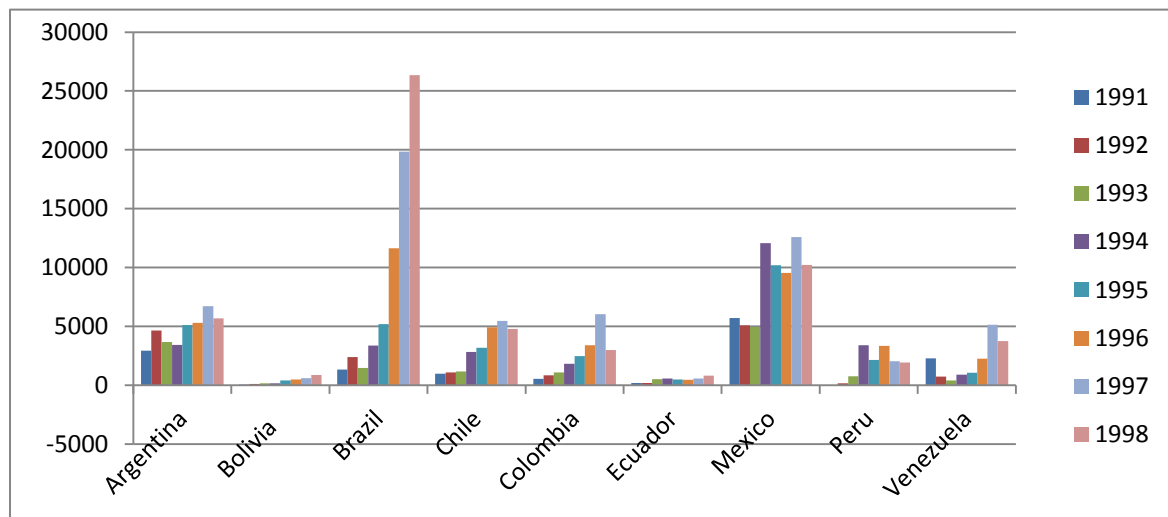


Figure 3. Net inflow of FDI into South America & Mexico, by Country, 1991–1998 (Millions of U.S. Dollars in Constant 1998 Dollars)¹⁰²

⁹⁹ Manuel Agosin, *Foreign Direct Investment in Latin America* (Washington, DC: Inter-American Development Bank, 1995), 10–11. Francisco L. Rivera-Batiz, “Foreign Direct Investment in Latin America: Current Trends and Future Prospects,” *United Nations Economic and Social Commission for Asia and the Pacific, Studies in Trade and Investment* no. 43 (2000): 161.

¹⁰⁰ Guyana, Uruguay and Paraguay did not reach above 250 during the time period and are therefore not depicted.

¹⁰¹ Francisco L. Rivera-Batiz, “Foreign Direct Investment in Latin America: Current Trends and Future Prospects,” *United Nations Economic and Social Commission for Asia and the Pacific, Studies in Trade and Investment* no. 43 (2000): 164.

¹⁰² Francisco L. Rivera-Batiz, “Foreign Direct Investment in Latin America: Current Trends and Future Prospects,” *United Nations Economic and Social Commission for Asia and the Pacific, Studies in Trade and Investment* no. 43 (2000): 165.

Not surprisingly, the absolute value of Latin American FDI was the biggest for Brazil, Mexico and Argentina, the largest economies in South America. As seen in Table 4, Brazil and Mexico received a net amount of roughly U.S. \$73 billion and Argentina received nearly U.S. \$40 billion. Figure 4, however, shows that when determining the average yearly net flow of FDI from 1990 to 1998 as a percentage of gross national product (GNP), in 1998 Ecuador had the highest percentage for Latin America, with 4.2 percent.¹⁰³ Based on this figure, it seems that the Latin American economies that are the most open to FDI, in relation to their size, do not necessarily receive the most FDI capital.¹⁰⁴

Table 4. Latin American Inward FDI by Value and as a Share of GNP, by Country in Millions of U.S. Dollars¹⁰⁵

	Total Net Flow of FDI, 1990–1998	Average annual FDI, 1990–1998
Argentina	39,798	4,422
Bolivia	2,903	323
Brazil	72,832	8,092
Chile	25,182	2,798
Colombia	19,848	2,205
Ecuador	4,051	830
Mexico	73,685	8,187
Paraguay	1,592	177
Peru	13,825	1,536
Uruguay	923	103
Venezuela	17,134	1,904

¹⁰³ World Bank, *World Development Report, 1998–1999* (Washington, DC: Oxford University Press, 1999); Francisco L. Rivera-Batiz, “Foreign Direct Investment in Latin America: Current Trends and Future Prospects,” *United Nations Economic and Social Commission for Asia and the Pacific, Studies in Trade and Investment* no. 43 (2000): 166.

¹⁰⁴ Francisco L. Rivera-Batiz, “Foreign Direct Investment in Latin America: Current Trends and Future Prospects,” *United Nations Economic and Social Commission for Asia and the Pacific, Studies in Trade and Investment*, no. 43 (2000): 166.

¹⁰⁵ Francisco L. Rivera-Batiz, “Foreign Direct Investment in Latin America: Current Trends and Future Prospects,” *United Nations Economic and Social Commission for Asia and the Pacific, Studies in Trade and Investment* no. 43 (2000): 166.

Countries in the region that made adjustments to FDI used some similar methods. One basic characteristic of the changes was that new laws gave permission to companies with foreign capital basically the same benefits and required the same responsibilities as domestic companies. For the most part, international company subsidiaries had full access to the host nation's economy barring a small number of sectoral limitations. Foreign companies no longer need to get prior authorization in most Latin American countries with the exception of a small number of investment categories.¹⁰⁶

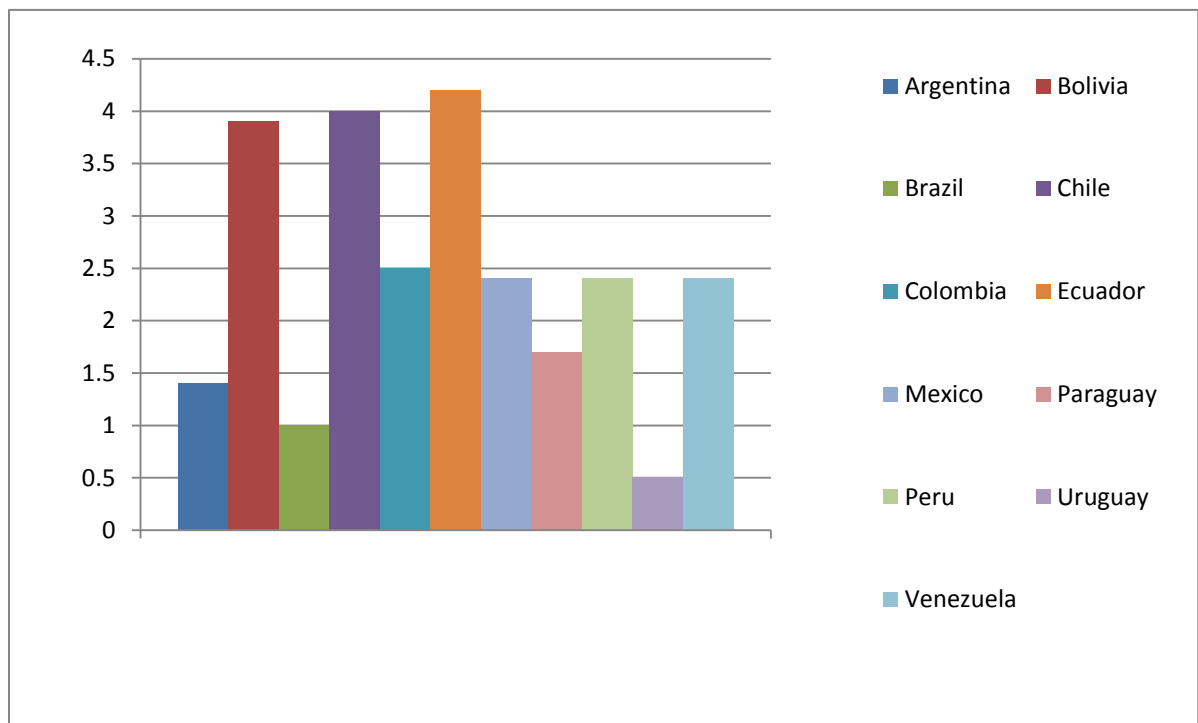


Figure 4. Average Annual FDI from 1990 to 1998 as a Percentage Share of GNP in 1998¹⁰⁷

FDI in several Latin America countries are represented in Figure 5, by sector. For Ecuador, Bolivia, and Chile, FDI has the largest share of minerals and agriculture. For

¹⁰⁶ Manuel Agosin, *Foreign Direct Investment in Latin America* (Washington, DC: Inter-American Development Bank, 1995), 11.

¹⁰⁷ World Bank, *World Development Report, 1998–1999* (Washington, DC: Oxford University Press, 1999); Francisco L. Rivera-Batiz, “Foreign Direct Investment in Latin America: Current Trends and Future Prospects,” *United Nations Economic and Social Commission for Asia and the Pacific, Studies in Trade and Investment*, no. 43 (2000): 166.

Brazil, Paraguay, and Venezuela, manufacturing FDI is dominant. For Mexico and Peru, the majority of FDI flows to the service sector. Colombia has a fairly balanced sectoral distribution of FDI.¹⁰⁸

What the above introduction to Foreign Direct Investment shows is that two of the most important reasons in Latin America for the increase in FDI are the lifting of restrictions on FDI and privatization of state owned enterprises. As a result, in the 1980s and 1990s, Latin American countries removed barriers to foreign investment. These two points will be demonstrated below with regard to the three cases of focus.

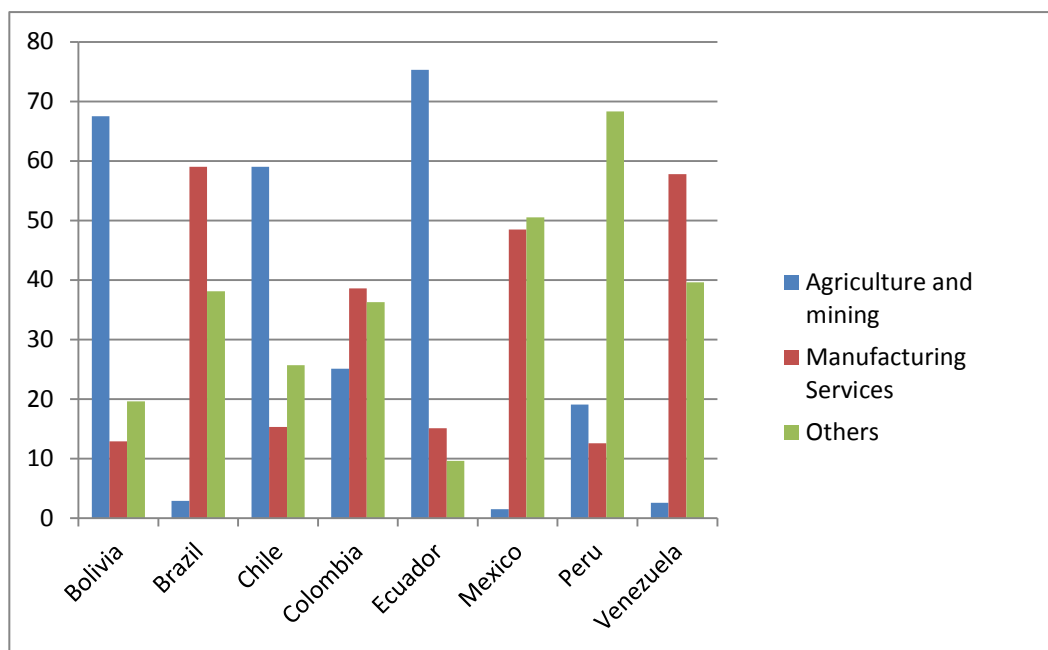


Figure 5. Sectoral Distribution of FDI into Selected Latin American Countries, 1995 (Percentage Distribution by Sector)¹⁰⁹

¹⁰⁸ Francisco L. Rivera-Batiz, "Foreign Direct Investment in Latin America: Current Trends and Future Prospects," *United Nations Economic and Social Commission for Asia and the Pacific, Studies in Trade and Investment* no. 43 (2000): 167.

¹⁰⁹ Francisco L. Rivera-Batiz, "Foreign Direct Investment in Latin America: Current Trends and Future Prospects," *United Nations Economic and Social Commission for Asia and the Pacific, Studies in Trade and Investment* no. 43 (2000): 168.

B. PRIVATIZATION AND OPENING TO FDI: ECUADOR, MEXICO AND COLOMBIA

Having overviewed economic policy from the 1930s to the 1990s covering specifically privatization and foreign direct investment in Latin America, the next step to furthering this thesis is looking at privatization and opening to foreign direct investment in Ecuador, Mexico and Colombia. This will give us the background to understand Latin America's push to privatize ports in these case countries discussed in section C of this chapter.

1. Ecuador

In the 1980s and 1990s, Ecuador went through similar structural adjustments as other Latin American countries, though Ecuador was considered a less aggressive reformer compared to most Latin American countries including Colombia and Mexico.¹¹⁰ Beginning in the early 1980s, in Ecuador, loans were negotiated by the government and most were in accordance with the suggested International Monetary Fund (IMF) and World Bank structural adjustment measures. Neoliberal stabilization in Ecuador included state reduction and lowering of the deficit, the privatization of state enterprises, the liberalization of trade, devaluation, the decentralization of politics, and freeing markets from government controls in order to bring Ecuador into the global economy.¹¹¹ Ecuadorian adjustments were less severe than those of other Latin American countries.

Ecuador's first policies moving in the neoliberal direction were made into law in 1982. They included a decree to devalue sugar, and the implementation of a large-scale stabilization program. Under this program new consumption taxes were imposed, wheat and gas subsidies were removed, transportation fares were increased, gas prices doubled,

¹¹⁰ Amy Lind "Engendering Andean Politics," in *Politics in the Andes: Identity, Conflict, Reform*, ed. Jo-Marie Burt and Philip Mauceri (Pittsburgh, PA: University of Pittsburgh Press, 2004) 62; Javier Corrales, "The Backlash Against Market Reforms in Latin America in the 2000s," in *Constructing Democratic Governance in Latin America*, 2nd ed. Jorge I. Domínguez and Michael Shifter, eds. (Baltimore, MD: Johns Hopkins University Press, 2003), 91.

¹¹¹ Louis Lefebvre "Agriculture and Rural Development: A Critique of Establishmentarian Policies in Ecuador" in *Rural Progress, Rural Decay: Neoliberal Adjustment Policies and Local Initiatives*, eds. Lisa L North and John D. Cameron (Bloomfield, CT: Kumarian Press, Incorporated, 2003), 69. Amy Lind "Engendering Andean Politics," in *Politics in the Andes: Identity, Conflict, Reform*, ed. Jo-Marie Burt and Philip Mauceri (Pittsburgh, PA: University of Pittsburgh Press, 2004) 62.

and restrictions were implemented on public salary changes. Changes were made in “tariffs, foreign investment, the exchange rate, corporate and individual tax rates, prices, the monetary supply, the public budget, subsidies, and land water rights.”¹¹² These changes made Ecuador substantially more market-oriented. Despite the comprehensive neoliberal transformation in Ecuador, policy makers had not realized their goal of developing Ecuador to be ripe for foreign investment, though progress was made.¹¹³

President Borja’s administration (1988–1992) began liberalizing the Ecuadorian economy particularly through liberalizing trade.¹¹⁴ Major reforms, however, were implemented under President Durán Ballén’s administration (1992–1996).¹¹⁵ The restructuring process was accelerated through a new plan called “New Route (Nuevo Rumbo): austerity and economic liberalization.”¹¹⁶ Included in this plan was the reduction of trade barriers, promotion of development through exports, and privatization of important state-run industries.¹¹⁷ The government followed through with its plan by restructuring and minimizing social and economic ministries, drastically reducing the number of state employees, and creating an Emergency Social Investment Fund, designed

¹¹² Jeanne A. K. Hey, and Thomas Klak, “From Protectionism Towards neoliberalism: Ecuador across Four Administrations (1981–1996),” *Studies in Comparative International Development* 34, no. 3 (1999): 92.

¹¹³ Jeanne A. K. Hey, and Thomas Klak, “From Protectionism Towards neoliberalism: Ecuador across Four Administrations (1981–1996),” *Studies in Comparative International Development* 34, no. 3 (1999): 92.

¹¹⁴ Amy Lind “Engendering Andean Politics,” in *Politics in the Andes: Identity, Conflict, Reform*, ed. Jo-Marie Burt and Philip Mauceri (Pittsburgh, PA: University of Pittsburg Press, 2004), 62.

¹¹⁵ Amy Lind “Engendering Andean Politics,” in *Politics in the Andes: Identity, Conflict, Reform*, ed. Jo-Marie Burt and Philip Mauceri (Pittsburgh, PA: University of Pittsburg Press, 2004), 62.

¹¹⁶ Amy Lind “Engendering Andean Politics,” in *Politics in the Andes: Identity, Conflict, Reform*, ed. Jo-Marie Burt and Philip Mauceri (Pittsburgh, PA: University of Pittsburg Press, 2004) 62; Monique Segarra, “Redefining the Public/Private Mix: NGOs and the Emergency Social Investment Fund in Ecuador,” in *The New Politics of Inequality: Rethinking participation and Representation*, ed. Douglas Chalmers, Carlos Vilas, Katherine Hite, Scott Martin, Kerianne Piester, and Monique Segarra (Oxford, NY: Oxford University Press, 1997), 112.

¹¹⁷ Amy Lind “Engendering Andean Politics,” in *Politics in the Andes: Identity, Conflict, Reform*, ed. Jo-Marie Burt and Philip Mauceri (Pittsburgh, PA: University of Pittsburg Press, 2004) 62; Monique Segarra, “Redefining the Public/Private Mix: NGOs and the Emergency Social Investment Fund in Ecuador,” in *The New Politics of Inequality: Rethinking participation and Representation*, ed. Douglas Chalmers, Carlos Vilas, Katherine Hite, Scott Martin, Kerianne Piester, and Monique Segarra (Oxford, NY: Oxford University Press, 1997), 500.

by World Bank and IMF, to lessen the effects of structural adjustments on the poor.¹¹⁸ Despite the new plan, the reforms still did not live up to neoliberal expectations.¹¹⁹

In December 1996 the Ecuadorian national foreign debt was more than twelve billion dollars and the government budget deficit was more than one billion dollars. It was at this time that President Abdala Bucaram (September 1996–February 1997) publicized the economic policy he would pursue.¹²⁰ Despite having won the Ecuadorian presidency with promises to protect real incomes and create jobs, once in office Bucaram's administration soon raised prices for energy, public transportation and telephone rates. At the same time he began to privatize state-owned firms.¹²¹ President Bucaram passed out money to the Ecuadorian poor, while asking Ecuadorians to endure neoliberal reforms as a sacrifice to pay off the national debt owed. Many Ecuadorians began to distrust Bucaram because of this coupled with the fact that he had promised less severe reform than what was implemented. Both consumers and labor unions were upset by the increased prices which pushed them to protest. Bucaram's administration had to deal with opposition from all social classes and geographic regions as a result of both Bucaram's policies as well as accusations of corruption and increasing distrust of Bucaram and his administration.¹²²

In the 1980s and 1990s, there was substantial variation in the reform process that Latin American countries took. Though Ecuador did implement neoliberal reform, of the three types of reformers, shallow, intermediate and aggressive, Ecuador's neoliberal

¹¹⁸ Amy Lind "Engendering Andean Politics," in *Politics in the Andes: Identity, Conflict, Reform*, ed. Jo-Marie Burt and Philip Mauceri (Pittsburgh, PA: University of Pittsburg Press, 2004) 62; Monique Segarra, "Redefining the Public/Private Mix: NGOs and the Emergency Social Investment Fund in Ecuador," in *The New Politics of Inequality: Rethinking Participation and Representation*, ed. Douglas Chalmers, Carlos Vilas, Katherine Hite, Scott Martin, Kerianne Piester, and Monique Segarra (Oxford, NY: Oxford University Press, 1997), 500.

¹¹⁹ Louis Lefebvre "Agriculture and Rural Development: A Critique of Establishmentarian Policies in Ecuador" in *Rural Progress, Rural Decay: Neoliberal Adjustment Policies and Local Initiatives*, eds. Lisa L North and John D. Cameron (Bloomfield, CT: Kumarian Press, Incorporated, 2003), 71.

¹²⁰ Amy Lind "Engendering Andean Politics," in *Politics in the Andes: Identity, Conflict, Reform*, ed. Jo-Marie Burt and Philip Mauceri (Pittsburgh, PA: University of Pittsburg Press, 2004) 62.

¹²¹ Susan Carol Stokes, *Mandates and Democracy: Neoliberalism by Surprise in Latin America* (Port Chester, NY: Cambridge University Press, 2001), 112.

¹²² Amy Lind "Engendering Andean Politics," in *Politics in the Andes: Identity, Conflict, Reform*, ed. Jo-Marie Burt and Philip Mauceri (Pittsburgh, PA: University of Pittsburg Press, 2004) 63.

reform followed a less aggressive reform process compared to my other case countries, Colombia and Mexico. Ecuador's speed in privatization, deficit reduction, and market deregulation was slow and haphazard compared to other reformers in Latin America.¹²³

2. Mexico

In the 1980s and 1990s, the role of the state in the Mexican economy was redefined by way of an assertive agenda to liberalize trade, promote efficiency, and reduce state ownership across sectors.¹²⁴ Mexico has since substantially privatized its public sector. With regard to the scope of the reform program implemented, it is one of the biggest worldwide. The economy of Mexico was transformed and after more than 40 years, state interventionism was reversed.¹²⁵

Neoliberal reform was implemented in Mexico with a number of goals. One of the main goals was to recreate the financial system into a system based on free-market institutions. To accomplish this transformation, the government drastically reduced reserve requirements by 1992 and shortly thereafter eliminated them; did away with controls placed on interest rates; and privatized banks.¹²⁶

In Mexico, FDI restrictions came into existence in the early 20th century when foreign majority ownership in steel, cement, glass, automobiles, and mining was restricted. However, Mexico, as is true of most Latin American countries, underwent

¹²³ Javier Corrales, "The Backlash Against Market Reforms in Latin America in the 2000s," in *Constructing Democratic Governance in Latin America*, 2nd ed., Jorge I. Domínguez and Michael Shifter, eds. (Baltimore, MD: Johns Hopkins University Press, 2003), 90–91.

¹²⁴ Alberto Chong, and Florencio López-de-Silanes, "Privatization in Mexico" (Working Paper 513, Inter-American Development Bank, Washington, DC, 2004), 37.

¹²⁵ A Alberto Chong and Florencio López-de-Silanes, "Privatization in Mexico" (Working Paper 513, Inter-American Development Bank, Washington, DC, 2004), 6; A. E. Rausch "Privatization in Latin America in the Early 1990s," Division for Public Economics and Public Administration Department of Economic and Social Affairs (New York: United Nations, 1990), 177.

¹²⁶ Peter H Smith, Kōtarō Horisaka, and Shōji Nishijima, *East Asia and Latin America: the Unlikely Alliance* (Lanham, MD: Rowman & Littlefield Publishers, 2003), 174–175.

substantial liberalization of foreign investment regulations. The 1973 Law to Promote Mexican Investment and Regulate Foreign Investment created the toughest restrictions on FDI after World War II.¹²⁷

The way Mexico liberalized its trade and foreign investment was by region. Trade and FDI restrictions were first liberalized along the U.S.-Mexico border in the 1960s and 1970s through the Border Industrialization Plan, which created a free trade zone at the border, facilitating FDI and the growth of the maquiladoras in the border region. The success of the program influenced the growth of the rest of the country.¹²⁸

Mexico's privatization process began earlier than most other Latin American countries and was sustained over a longer period of time. Of the country cases in focus for this thesis, Mexico led in privatization through opening basic infrastructure to private investment including natural gas, the generation of electricity, satellite communications, ports, airports, and railroads.¹²⁹ The number of state-owned firms decreased from more than 1,100 to just over 200 between 1982 and 2000.¹³⁰

The macroeconomic goal in privatization in Mexico was to generate funds to repay foreign debt while transitioning public ventures into private hands. The microeconomic goal of privatization in Mexico was to modernize the firms to be more competitive in the international economy. In order to be able to modernize firms the Mexican government saw need for 1) investment in new plants and equipment, since the government was unable to facilitate it under the conditions of extreme austerity of the 1980s, and 2) to give rights over land back to their owners by making labor contracts more "flexible."¹³¹ The Mexican government saw privatization in large businesses as the

¹²⁷ Also characteristic of other Latin American methods in that time frame.

¹²⁸ Francisco L. Rivera-Batiz, "Foreign Direct Investment in Latin America: Current Trends and Future Prospects," *United Nations Economic and Social Commission for Asia and the Pacific, Studies in Trade and Investment* no. 43 (2000): 172.

¹²⁹ Dag MacLeod, *Downsizing the State: Privatization and the Limits of Neoliberal Reform in Mexico* (University Park, PA: Penn State Press, 2004), 71; MacLeod references two sources that are in Spanish: Rogozinski, 1997; Spiller and Sales, 1999.

¹³⁰ Dag MacLeod, *Downsizing the State: Privatization and the Limits of Neoliberal Reform in Mexico* (University Park, PA: Penn State Press, 2004), 71.

¹³¹ Dag MacLeod, *Downsizing the State: Privatization and the Limits of Neoliberal Reform in Mexico* (University Park, PA: Penn State Press, 2004), 90.

comprehensive reorganization of labor contracts to prevent workers from obstructing management initiatives with regard to production organization.

This privatization in Mexico occurred during the de la Madrid, Salinas and Zedillo sexteños (six-year term in office) in three distinct phases. The different administrations implemented privatization differently, particularly in terms of the state agencies used to privatize public companies and the characteristics of the companies that were privatized. The de la Madrid and Salinas administrations both used centralization of control within the Treasury Ministry, which led to the creation of the Unit for Divestiture of Parastate Entities (UDEP.)¹³² Centralizing the power gave officials within the Ministry of Treasury and Public Credit (SHCP) the ability to separate those that challenged the privatization process and weaken their ability to resist privatization through withholding resources of the firm. The Zedillo administration, on the other hand, centralized authority over privatization to special teams, created using members of the SHCP, and placing them in “strategic locations” within specific ministries.¹³³

President de la Madrid took office from the end of 1982 until 1988. The mid-1980s crude oil—Mexico’s leading revenue source—price collapse drove the government to abolish licensing, quotas and reference pricing and tariffs were lowered from 100 percent in the early 1980s to a maximum of 20 percent prior to 1988.¹³⁴ With the debt crisis and the need to restore confidence, both foreign and domestic private investors were expected to improve the situation. Thus, privatization became the most important aspect of the strategy to pay off debt, reform public finances, and get back the trust of the private sector.¹³⁵ During this time period, privatizations remained mainly one of three

¹³² “Though the centralization of power in the Ministry of the Treasury was crucial to Mexico’s privatization program, state actors also relied heavily upon the expertise and guidance of private consulting firms, international agencies and “agent banks.” Rather than strengthening the bureaucratic capacity of the state, state managers actually subcontracted essential tasks to these other institutions, in effect privatizing part of the privatization process itself.” Dag MacLeod, *Downsizing the State: Privatization and the Limits of Neoliberal Reform in Mexico* (University Park, PA: Penn State Press, 2004), 3.

¹³³ Dag MacLeod, *Downsizing the State: Privatization and the Limits of Neoliberal Reform in Mexico* (University Park, PA: Penn State Press, 2004), 71.

¹³⁴ Hector E. Schamis, “Distributional Coalitions and the Politics of Economic Reform in Latin America,” *World Politics* 51, no. 2 (1999): 253.

¹³⁵ Dag MacLeod, *Downsizing the State: Privatization and the Limits of Neoliberal Reform in Mexico* (University Park, PA: Penn State Press, 2004), 74.

kinds. The first was simple, small sales of companies. The second kind was the liquidations of the belongings of companies that were not viable. And the third kind was “extinctions, the legal elimination of fideicomisos and other funds that existed only on paper.”¹³⁶

President Salinas took office from 1988 until 1994. Unlike the De la Madrid office that aimed to gain the trust of private investors through producing an environment conducive for such trust and in hope of restoring stabilizing development, the Salinas office was far more explicit in its dealings with key private investors to the point of—only two weeks into his presidency—electing a businessman as presidential adviser to foreign investment against the deep rooted tradition of keeping businessmen out of office.¹³⁷ Soon it became common for businessmen from large private firms to have access to top executive positions in office, unheard of prior to Salinas in postrevolutionary Mexico.¹³⁸

Reformers in the Salinas administration worked with the help of agent banks, international consulting firms, structural adjustment loans and technical support from the World Bank. They took on larger and even more complex privatizations compared to the de la Madrid administration, selling some of Mexico’s biggest public firms.¹³⁹ From 1990 until 1993 UDEP sold “two steel mills, a fertilizer plant, a diesel truck and engine plant, Telmex (the telephone monopoly), and the state-run television corporation.”¹⁴⁰ Additionally, UDEP finished the sale of a large number of public firms that began during the de la Madrid administration. These privatizations include Mexicana de Aviación and

¹³⁶ “Government officials reported that the number of public firms reported in 1982 was actually an exaggeration because it included firms that existed only on paper, thus making the number of firms privatized during this initial period an exaggeration as well,” Dag MacLeod, *Downsizing the State: Privatization and the Limits of Neoliberal Reform in Mexico* (University Park, PA: Penn State Press, 2004), 76.

¹³⁷ Hector E. Schamis, “Distributional Coalitions and the Politics of Economic Reform in Latin America,” *World Politics* 51, no. 2 (1999): 255.

¹³⁸ Hector E. Schamis, “Distributional Coalitions and the Politics of Economic Reform in Latin America,” *World Politics* 51, no. 2 (1999): 255–256.

¹³⁹ Dag MacLeod, *Downsizing the State: Privatization and the Limits of Neoliberal Reform in Mexico* (University Park, PA: Penn State Press, 2004), 82–83.

¹⁴⁰ Dag MacLeod, *Downsizing the State: Privatization and the Limits of Neoliberal Reform in Mexico* (University Park, PA: Penn State Press, 2004), 82–83.

the rest of the sugar mills. Of note, though leaving control over the larger companies in Mexican investor's hands, frequently the Salinas administration permitted foreign investors to participate as minority shareholders.

Though the privatization process began under De la Madrid, privatization under Salinas was instrumental in restructuring private commercial groups as well as forming a new alliance between the private sector and the Mexican government. Most SOEs were auctioned—raising U.S. \$20 billion—to private businesses that met technical, financial and operational standards limiting participation mainly to large businesses.¹⁴¹ The economic clout spread through the Salinas process of reform solidified the budding political connection between the Salinas administration and key private corporations developed, primarily as Schamis describes “on the basis of benefits distributed selectively among firms and sectors throughout the liberalization experiment.”¹⁴²

The Zedillo administration was in office from 1994 until 2000. It privatized a number of firms that had been considered “natural extensions of the policies of the de la Madrid and Salinas administrations.”¹⁴³ The target of these privatizations was the energy sector and the communications and transportation sector.

A close look at both privatizations and the requirements of the North American Free Trade Agreement (NAFTA) reveals that Mexico did not open its markets without restrictions. NAFTA came into effect in 1994 after Mexico sought a free trade agreement with the United States—broaching the idea in 1990—with the goal “to stabilize the Mexican economy and promote economic development by attracting foreign direct

¹⁴¹ Hector E. Schamis, “Distributional Coalitions and the Politics of Economic Reform in Latin America,” *World Politics* 51, no. 2 (1999): 256.

¹⁴² Hector E. Schamis, “Distributional Coalitions and the Politics of Economic Reform in Latin America,” *World Politics* 51, no. 2 (1999): 257.

¹⁴³ Dag MacLeod, *Downsizing the State: Privatization and the Limits of Neoliberal Reform in Mexico* (University Park, PA: Penn State Press, 2004), 85.

investment, increasing exports, and creating jobs.”¹⁴⁴ Control of large privatized companies in banking, telecommunications and airlines remained with Mexican nationals.

Along the same lines, NAFTA’s Annex I designated many new privatized activities to Mexican nationals only.¹⁴⁵ For example, the sale of gasoline, diesel, lubricants, oils, or additives, in addition to the transportation and storage of petroleum gas, is only allowed by Mexican nationals.¹⁴⁶ Additionally, non-Mexicans are not allowed to own more than 25 percent of a company that provides commercial air service.¹⁴⁷ Non-Mexican ownership in cable television and agriculture may not exceed 49 percent. And finally, getting concession from the Ministry of Communications and Transportation to provide stevedoring and warehousing services at ports, or to build and operate roads for transportation over land, was reserved exclusively for Mexican nationals.¹⁴⁸

One way Mexico’s privatization process is different from other Latin American countries is in who actually carried out the privatization process. The Mexican state relied heavily on the resources and personnel of the private sector to privatize public firms. Many important tasks were contracted out to private actors in the privatization process. MacLeod references Haggard and Kaufman’s argument that a good portion of the “technical expertise in financial restructuring, rehabilitating companies, and preparing

¹⁴⁴ M. Angeles Villarreal, *NAFTA and the Mexican Economy* (CRS Report No. RL34733) (Washington, DC: Congressional Research Service, 2010), summary.

¹⁴⁵ Dag MacLeod, *Downsizing the State: Privatization and the Limits of Neoliberal Reform in Mexico* (University Park, PA: Penn State Press, 2004), 103.

¹⁴⁶ Retail distribution of gasoline, diesel, lubricants, oils, or additives, in addition to the transportation and storage of petroleum gas all once belonged to the Pemex Empire.

¹⁴⁷ Dag MacLeod, *Downsizing the State: Privatization and the Limits of Neoliberal Reform in Mexico* (University Park, PA: Penn State Press, 2004), 103.

¹⁴⁸ Dag MacLeod, *Downsizing the State: Privatization and the Limits of Neoliberal Reform in Mexico* (University Park, PA: Penn State Press, 2004), 103.

them for divestiture” that are crucial to privatizing public enterprises were really provided by “agent banks and private consultants to the Mexican government.”¹⁴⁹

3. Colombia

To set the stage for the time period in focus of this thesis—the early 2000s—this sub-section overviews privatization and opening to FDI in Colombia from the 1970s through the early 2000s. During the 1990s, after the majority of Latin American countries experienced a debt crisis, Colombia maintained a strong economy characterized by steady growth and little debt. What helped Colombia to avoid experiencing a debt crisis was customarily conservative fiscal and monetary policy along with its continuity in policy and a slow but sure diversification of its exports. Despite this, Colombia encountered vulnerabilities that other Latin American states were also experiencing.¹⁵⁰

The increase of coffee export revenues in Colombia in the 1970s lessened the effect of the 1982 debt crisis. However, the relief was only momentary requiring in 1984 the implementation of a macroeconomic stabilization program.¹⁵¹ Following another spike in coffee prices in 1986–1987 the state departed from its traditionally pragmatic and gradual approach and instead chose a more extreme approach in 1988 to put into place a more robust stabilization program.¹⁵² The Barco administration (1986–1990) implemented grand institutional reforms and hastened the opening of the Colombian

¹⁴⁹ Dag MacLeod, “Privatization and the Limits of State Autonomy in Mexico: Rethinking the Orthodox Paradox,” *Latin American Perspectives* 32, no. 4 (2005): 38. Deborah Tompsett-Makin, *Mexico: Popular Mobilization versus Neoliberal Democracy* (Thousand Oaks, CA: Sage, 2005), 37–38; “Mexico undertook a comprehensive privatization program in which the goal was to eliminate state ownership across the board, with the exceptions of electricity and oil.” Alberto Chong, Florencio Lopez de Silanes, *Privatization in Latin America: Myths and Reality* (Washington, DC: World Bank Publications, 2005), 8.

¹⁵⁰ Philip Mauceri, “State, Elites, and the Response to Insurgency,” in Jo-Marie Burt and Philip Mauceri, *Politics in the Andes: Identity, Conflict, Reform*, Univ. of Pittsburg Press 2004, 153; Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 153.

¹⁵¹ Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 41–42.

¹⁵² Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 42.

economy in the early 1990s.¹⁵³ Liberalization was implemented through the promotion of market competition and deregulation.¹⁵⁴ Privatization was a key tool used for economic restructuring and to assist privatized state-owned firms to be more competitive with private firms.¹⁵⁵

The Colombian government began a robust liberalization program prompted by the Washington consensus.¹⁵⁶ The continued execution of neoliberal reforms under the administration of President César Gaviria (1990–1994) included privatizing key sectors—such as banking and telecommunications—and trade liberalization while at the same time announcing the implementation of significant political and drug related programs.¹⁵⁷ Using the distraction of the drug war and reforms of the constitution President Gaviria implemented substantial reforms without much focus from either congress or the people.

All in all, Gaviria relaxed import barriers, reduced and rationalized reserve requirements, freed most interest rates, eliminated exchange controls, liberalized imports, reformed labor legislation, relaxed FDI regulation, deregulated the financial sector, modified legislation governing port operations, liberalized the insurance industry and modernized the tax system.¹⁵⁸ The goal of the Gaviria economic reforms was for the state

¹⁵³ Laura Spagnolo, and Daniel Munevar, “After Years of (Economic) Solitude: Neoliberal Reforms and Pay Inequality in Colombia” (UTIP Working Paper 47, The University of Texas Press, Austin, TX, 2008), 4.

¹⁵⁴ Eduardo Lora, *State of State Reforms in Latin America* (Herndon, VA: World Bank Publications, 2006), 279.

¹⁵⁵ Eduardo Lora, *State of State Reforms in Latin America* (Herndon, VA: World Bank Publications, 2006), 279.

¹⁵⁶ Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 42.

¹⁵⁷ Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 42. For more on Economic reforms in Colombia see table 2 in Laura Spagnolo, and Daniel Munevar, “After Years of (Economic) Solitude: Neoliberal Reforms and Pay Inequality in Colombia” (UTIP Working Paper 47, The University of Texas Press, Austin, TX, 2008), 6.

¹⁵⁸ Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 43. For more on Economic reforms in Colombia see table 2 Laura Spagnolo, and Daniel Munevar, “After Years of (Economic) Solitude: Neoliberal Reforms and Pay Inequality in Colombia” (UTIP Working Paper 47, The University of Texas Press, Austin, TX, 2008), 6.

to play less of a role in and thereby stimulate the economy.¹⁵⁹ The effect of opening to FDI in the 1990s was shocking. Both the agriculture and manufacturing sectors experienced a crisis as a result of privatizations, including price drops of major exports, such as coffee, an increase in competition from other countries and worsening security situations.¹⁶⁰

A crucial element of reform in Colombia was the approval of a new constitution and congress in 1991.¹⁶¹ With the new constitution and congress came the appointment of a civilian defense minister and substantial headway was made with peace negotiations with the guerilla movement.¹⁶² On the other hand, the constitution included spending provisions and assurances of social services with no consideration for how to fund or implement them.¹⁶³ Concurrently there was a reduction in the central government's fiscal prudence and influence on the economy.¹⁶⁴ These factors coupled with the liberalization led to a drop in domestic production leaving the unskilled worker with less legitimate options for employment.¹⁶⁵

The economy plunged into crisis by 1998 which was a reflection of President Gaviria's open-market policies and the inability of the institutions to adjust to the

¹⁵⁹ Laura Spagnolo, and Daniel Munevar, "After Years of (Economic) Solitude: Neoliberal Reforms and Pay Inequality in Colombia" (UTIP Working Paper 47, The University of Texas Press, Austin, TX, 2008), 4.

¹⁶⁰ For more on Economic reforms in Colombia see Table 2 in Laura Spagnolo and Daniel Munevar, "After Years of (Economic) Solitude: Neoliberal Reforms and Pay Inequality in Colombia" (UTIP Working Paper 47, The University of Texas Press, Austin, TX, 2008), 6.

¹⁶¹ Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 44; Laura Spagnolo and Daniel Munevar, "After Years of (Economic) Solitude: Neoliberal Reforms and Pay Inequality in Colombia" (UTIP Working Paper 47, The University of Texas Press, Austin, TX, 2008), 4.

¹⁶² Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 44.

¹⁶³ Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 44.

¹⁶⁴ Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 44.

¹⁶⁵ Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 44.

economic and political changes both in Colombia and worldwide.¹⁶⁶ Unemployment sky rocketed with the doubling of labor costs in the 1990s coupled with the misalignment of workers' skills with employer's needs making the recession in 1999 the worst since 1930.¹⁶⁷

The Colombian government had not restored confidence in its economy throughout the 1990s.¹⁶⁸ According to Holmes and Gutiérrez de Piñeres, President Gaviria's reforms "may have laid the groundwork for growth, but without a clear and comprehensive plan to deal with the violence, sustained and substantial growth was unlikely."¹⁶⁹ Generally, the economy remained stagnant until after President Uribe's (2002–2010) aggressive position on security problems which reestablished trust in the economy.¹⁷⁰ By 2005 FDI in Colombia increased substantially having received the third highest amount of FDI in the region.¹⁷¹

The liberalization process in the Colombian privatization and opening to FDI included reforms to treat foreign investors the same as Colombian investors. They removed controls on remittance of profits and capital and they permitted foreign investment in most sectors.¹⁷² For the most part, participation in the privatization of SOEs was open to foreign investment without additional restrictions. Growth in liberalization was the greatest in telecommunications, accounting/auditing, energy, mining, and tourism and less so in legal services, insurance, distribution services, advertising, and data

¹⁶⁶ Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 44.

¹⁶⁷ Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 44.

¹⁶⁸ Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 45.

¹⁶⁹ Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 45–46.

¹⁷⁰ Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 45.

¹⁷¹ Jennifer Holmes, Gutiérrez de Piñeres, Sheila Amin, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 46.

¹⁷² United States Department of State, *2011 Investment Climate Statement—Colombia*, Bureau of Economic Energy and Business Affairs, March 2011, <http://www.state.gov/e/eb/rls/othr/ics/2011/157259.htm>.

processing.¹⁷³ The exception was in certain sectors, including maritime agencies and shipping, in which foreign investors were subject to restrictions and exceptions. The specific restrictions to maritime agencies and shipping limited the percentage stake foreign investors could hold and is discussed further in the port section specific to Colombia as it relates to the thesis.

C. LATIN AMERICAN PUSH TO PRIVATIZE PORTS

As discussed in chapter III, in the early 1990s Latin American countries, including Ecuador, Mexico, and Colombia, began balancing their budgets, managing inflation and keeping reasonable goals, laying the base for a more sound economic foundation. Interest in ports grew with growth in trade, and more attention was given to port activities in Latin America. President of the Alexandria, Virginia-based American Association of Port Authorities (AAPA), Erik Stromberg commented, “I think as political changes evolve... ports are then viewed as critical. Ports and transportation infrastructure are a critical strategy in a country’s effort to reach a critical balance of trade. Attention has to be paid to port management.”¹⁷⁴

Raul Urzua Marmbio, the director of Empresa Portuaria de Chile (Chile’s National Port System) and, as of September 1993, chairman of AAPA, wrote of his goals as Chairman using Chile as an example for other Latin American countries to follow. He wrote of Chile’s ports “stripping off state-held enterprises in privatization that has resulted in well-run ports and tremendous growth in export products...”¹⁷⁵ He viewed as important, the integration of Latin American ports, many of which were already going through privatization and subsequent modernization efforts.

With increasing traffic through ports comes greater demand on the port which puts more pressure to increase the efficiency and effectiveness of a port. In Latin

¹⁷³ United States Department of State, *2011 Investment Climate Statement—Colombia*, Bureau of Economic Energy and Business Affairs, March 2011, <http://www.state.gov/e/eb/rls/othr/ics/2011/157259.htm>.

¹⁷⁴ Kevin Hall, “First Latin American AAPA Chairman Raises Hope for Port Development There,” *Traffic World* (September 1993): 28.

¹⁷⁵ Kevin Hall, “First Latin American AAPA Chairman Raises Hope for Port Development There,” *Traffic World* (September 1993): 28.

American, in the early 1990s, port leaders began looking to examples of what has worked and what has not worked in ports throughout Latin America.¹⁷⁶ One example of port privatization in Latin America that was examined was in Chile's move to end the monopolization of stevedoring and influence more direct investment.¹⁷⁷ Following Chile's example, smaller countries including my case countries of Colombia and Ecuador also looked to decentralize the national port authority and privatize port services respectively. Also following Chile's example, my remaining case country Mexico, took on one of the most ambitious port reform programs in Latin America, comprehensively selling off its water fronts. This program included the dismantling of Puertos Mexicanos, the federal port authority, and created integral port administrations (called Administracion Portuaria Integradas (APIs)), not unlike the autonomous port authorities in the United States.¹⁷⁸

Discussed previously in the section defining ports with regard to degree of public or private participation, most ports in Latin America, previously wholly owned and operated by the state, opened them to private investment, both domestic and foreign. Turning to the countries in my case study we see that this is true of Ecuador, Mexico, and Colombia. This section will, for each case study country, give a description of the countries' respective ports in terms of the degree that they each opened to privatization and FDI.

1. Ecuador

As outlined above, Ecuador did not implement aggressive neoliberal reforms to the extent that Argentina, Chile, Peru, or Mexico did, but Ecuador did open its ports to private investment. Until 1995, Ecuador's four main commercial ports were state owned

¹⁷⁶ Kevin Hall, "First Latin American AAPA Chairman Raises Hope for Port Development There," *Traffic World* (September 1993): 29.

¹⁷⁷ Kevin Hall, "First Latin American AAPA Chairman Raises Hope for Port Development There," *Traffic World* (September 1993): 29.

¹⁷⁸ Kevin Hall, "First Latin American AAPA Chairman Raises Hope for Port Development There," *Traffic World* (September 1993): 2.

and separately managed.¹⁷⁹ The government believed that for its ports to be able to compete with other ports in the region that were privatized, Ecuador would have to make changes.

As a result, Ecuador distributed the management of its ports, giving individual ports the ability to promote them and to pursue joint ventures (JV) with private entities already experienced in port management. This shift eliminated direct government involvement from decisions related to port operations. Ecuador opened its ports to private investment in 1995 when the Ecuadorian Government chose to implement the landlord port model in its four state-owned commercial ports and port services were put up for concession to private companies.¹⁸⁰

Esmeraldas port, on the northern coast of the country facing the Pacific Ocean, led the other ports in the concession process, having already attracted private partnership.¹⁸¹ The Port Authority of Guayaquil (APG), created in 1985, was the sole administrator, operator, financier, and planner for the Port of Guayaquil, Ecuador's primary port.¹⁸² APG in particular initiated a three step modernization plan for

¹⁷⁹ "Ports of Ecuador," Seaports: Information for the Maritime Community, accessed November 8, 2014, <http://seaport.homestead.com/files/ecuador.html>; "Who We Are?" About Us, Port Authority of Esmeraldas, accessed November 08, 2014, <http://www.puertoesmeraldas.gob.ec/index.php/inicio/quienes-somos>; "History" About Us, Port Authority of Esmeraldas, accessed November 08, 2014, <http://www.puertoesmeraldas.gob.ec/index.php/inicio/antecedentes>; "History" About Us, Port Authority of Esmeraldas, accessed November 08, 2014; "Historical Review," About Us, Port Authority of the Port of Bolivar, accessed November 08, 2014, http://www.puertobolivar.gob.ec/enu/index.php?option=com_content&view=article&id=1&Itemid=13&lang=en; "Background," Who We Are, Port Authority of Manta, accessed November 8, 2014, <http://www.puertodemanta.gob.ec/quienes-somos/antecedentes>; "History of the Port," Institutional, Port Authority of Guayaquil, accessed November 8, 2014, <http://www.apg.gob.ec/institucional/historia>.

¹⁸⁰ "Port Details," Port Commerce, Port of Guayaquil, World Port Source, accessed December 09, 2010, http://www.worldportsource.com/ports/commerce/ECU_Port_of_Guayaquil_1688.php; "The concessionaire would take on all responsibility and risk for management of the ports infrastructure on hand as well as any future investments that may be necessary." Franz Drees-Gross, Eloy Vidal, Emmanuel James, and Alexandra Ortiz, "Chapter 13. Basic Infrastructure: Water Supply and Sanitations, Telecommunications, Transport, and Urban Planning," in *Revisiting Ecuador's Economic and Social Agenda in an Evolving Landscape*, eds. Vicente Fretes Cibils, Marcelo Giugale, Eduardo Somensatto (Washington, DC: World Bank, 2008), 422.

¹⁸¹ "Ports of Ecuador," Seaports: Information for the Maritime Community, accessed November 8, 2014, <http://seaport.homestead.com/files/ecuador.html>.

¹⁸² "Guayaquil: The Historic Port City of Guayaquil is Open for Business as New Infrastructure Projects Come to Fruition and Generate Further Investment," *Fortune*, December 25, 2006, 3, http://www.timeincnewsgroutpub.com/sections/061225_Guayaquil.pdf.

privatization.¹⁸³ The first step consisted of the privatization of all services that were to date provided by the port authority. The second step was a complementary step and involved the renewal of legislation of Ecuador's ports, particularly focusing on the reduction of red tape.¹⁸⁴ The third step was the concessioning of Ecuador's ports, to include both the container and multi-purpose terminals.¹⁸⁵



Figure 6. Major Ports In Ecuador

¹⁸³ "Guayaquil: The Historic Port City of Guayaquil is Open for Business as New Infrastructure Projects Come to Fruition and Generate Further Investment," *Fortune*, December 25, 2006, 3, http://www.timeincnewsgroutcustompub.com/sections/061225_Guayaquil.pdf.

¹⁸⁴ "Guayaquil: The Historic Port City of Guayaquil is Open for Business as New Infrastructure Projects Come to Fruition and Generate Further Investment," *Fortune*, December 25, 2006, 3, http://www.timeincnewsgroutcustompub.com/sections/061225_Guayaquil.pdf.

¹⁸⁵ "Guayaquil: The Historic Port City of Guayaquil is Open for Business as New Infrastructure Projects Come to Fruition and Generate Further Investment," *Fortune*, December 25, 2006, 3, http://www.timeincnewsgroutcustompub.com/sections/061225_Guayaquil.pdf.

In 1999, a concession was granted, and its three terminals, the bulk terminal, container terminal and multi-purpose terminal, began operating privately.¹⁸⁶ The Bananapuerto terminal was operated by Naportec, the Fertisa Terminales was acquired by the private company Grupo Empresarial Wong and Vopak Ecuador was managed by the Dutch multinational company Royal Vopak Group.¹⁸⁷ The other ports, including Bolivar (located in the Province of El Oro.), and Manta (located in the city of Manta with direct access to the international navigation routes) followed the concession trail beginning with the promotion of their respective ports to attract private interest.¹⁸⁸ HPH won a concession to expand and operate the port of Manta and as of 2006 been working on a project in the port of Manta to expand the port.¹⁸⁹

2. Mexico

As a result of the strict central government control of the unions and stevedoring operations that ran the port terminals, along with the extensive corruption within port operations, Mexican ports were inefficient. In the 1990s Mexico introduced an aggressive decentralization program that led to the country's major ports being concessioned to private operators.¹⁹⁰ A port law was passed in August of 1991 to permit private stevedores to operate terminals through concessions and negotiate the associated labor contracts, thus reversing the strict central government control of its waterfront.¹⁹¹

¹⁸⁶ "Port Details," Port Commerce, Port of Guayaquil, World Port Source, accessed December 09, 2010, http://www.worldportsource.com/ports/commerce/ECU_Port_of_Guayaquil_1688.php.

¹⁸⁷ "Port Operator SA Naportec Bananapuerto," Chamber of Shipping Ecuador, Private port terminal, accessed December 09, 2010, <http://www.camae.org/paginas/bananapuerto.htm>; "Fertisa Terminales Fertilizers and Services SA," Chamber of Shipping Ecuador, Private port terminal, accessed December 09, 2010, <http://www.camae.org/paginas/fertisa.htm>; "Who We Are," Fertisa Fertilizers and Services SA, accessed November 7, 2014, <http://www.fertisa.com/somos.php>; "Vopak," Private Port Terminal, Chamber of Shipping Ecuador, accessed December 09, 2010, <http://www.camae.org/paginas/vopak.htm>.

¹⁸⁸ "Ports of Ecuador," Seaports: Information for the Maritime Community, accessed November 8, 2014, <http://seaport.homestead.com/files/ecuador.html>.

¹⁸⁹ Robert Evan Ellis, *China in Latin America: the Whats and Wherefores* (Boulder, CO: Lynne Rienner Publishers, 2009), 279. Since this book was published, Hutchison withdrew as the concessionaire due to controversy between HPH and the Ecuadorian Government.

¹⁹⁰ Ioannis Nicolas Kessides, *Reforming Infrastructure: Privatization, Regulation, and Competition* (Washington, DC: World Bank Oxford University Press, 2004), 213.

¹⁹¹ The government also seized the entire port operations at Veracruz at that time, dissolved a corrupt union there, and set up three private stevedoring operations. Terry Brennan, "Mexico Accelerates Port Privatization Plan," *Traffic World* 237 no. 11 (March 1994): 29.

The federal government contracted private stevedoring companies in the hope of improving cargo handling operations including faster loading and unloading of cargo and a reduction of mishaps. Then, in the summer of 1993, the Mexican Congress passed the General Ports Act to introduce regulation to every aspect of Mexico's ports. Also out of the act came the creation of APIs.¹⁹² Subsequently, in September of that year, 27 private terminal concessions were announced at ports around Mexico.¹⁹³ In February 1994, APIs were established in two of the largest container ports in Mexico, the ports of Manzanillo and Veracruz. The Port of Ensenada also established the Port Authority of Ensenada, SA de CV (Sociedad Anonima de Capital Variable (Spanish for Variable Capital Company)), in June of 1994.

The goal of APIs was to make the transition from inefficient labor practices to efficient practices smooth, through the creation of privately run terminals that would negotiate labor contracts with new unions that would have to compete for contracts.¹⁹⁴ The APIs were seen by the Mexican government as an essential stepping stone towards complete privatization. They were initially funded entirely by the central government. The legal responsibility of the APIs was to pay fees and plan and direct individual port development and then ultimately phase themselves out of existence by selling shares to private concerns when the ports were operating more efficiently.¹⁹⁵ In order for a private

¹⁹² Ioannis Nicolas Kessides, *Reforming Infrastructure: Privatization, Regulation, and Competition* (Washington, DC: World Bank Oxford University Press, 2004), 213.

¹⁹³ Kevin Hall, "First Latin American AAPA Chairman Raises Hope for Port Development There," *Traffic World* (September 1993): 2.

¹⁹⁴ Terry Brennan, "Mexico Accelerates Port Privatization Plan," *Traffic World* 237 no. 11 (March 1994): 29.

¹⁹⁵ Terry Brennan, "Mexico Accelerates Port Privatization Plan," *Traffic World* 237 no. 11 (March 1994): 26. Ricardo Castillo Mireles, "Mexico Auctions Major Ports," *Transportation & Distribution* 36, no. 9 (September 1995): 49. As the primary commercial authority in their respective ports, APIs were charged with operating and maintaining ports and making them profitable. Through the management and promotion of goods and services within the port, APIs sought to achieve economic independence within the port through income earned from port fees and services. The APIs were to be completely responsible for the decision making in the port. APIs were also required to pay the Federal Government an annual port fee for use, operation, and expansions of ports.

terminal operator to buy shares in the port, they had to have a long-term master plan for terminal development and investment and convince the API officials they would carry out their plan.¹⁹⁶

On Mexico's Pacific coast is the Port of Manzanillo, one of Mexico's busiest ports. The port authority for Manzanillo (API de Manzanillo) was created in 1993. The port authority for the Port of Veracruz, the Administracion Portuaria Integral de Veracruz (APIVER), was established in 1994. Both APIs were awarded a 50 year concession at their respective ports for the management and operation of buildings and facilities. The APIs managed and operated the ports, terminals and port facilities through third parties,¹⁹⁷ chosen through public bids.¹⁹⁸ Subsequently, the APIs would transfer these responsibilities to new private port managers.

In the summer of 1995 divestment—a unique process of port management—began when the Mexican government awarded to private cargo handlers the operational concessions of its most strategic and largest ports. Ingenieros Civiles Asociados (Associated Civil Engineers - ICA), Mexico's largest construction company, was awarded the concession at the Port of Veracruz (Gulf Coast), Mexico's largest and busiest port.¹⁹⁹ A Mexican construction company, REMACONST, was awarded the port of Altamira (Gulf Coast).²⁰⁰ A JV between Mexican Maritime Transport (TMM) and U.S.-based Stevedoring Services of America Inc. were awarded two docks at the Port of

¹⁹⁶ Terry Brennan, "Mexico Accelerates Port Privatization Plan," *Traffic World* 237 no. 11 (March 1994): 29.

¹⁹⁷ "Port Details," Port Commerce, World Port Source, Port of Veracruz, accessed December 9, 2010, http://www.worldportsource.com/ports/MEX_Port_of_Veracruz_260.php.

¹⁹⁸ "Who We Are," History, Port of Veracruz, accessed December 9, 2010, <http://www.puertodeveracruz.com.mx/apiver/en/who-we-are/history>.

¹⁹⁹ Ricardo Castillo Mireles, "Mexico Auctions Major Ports," *Transportation & Distribution* 36, no. 9 (September 1995): 49. The company has no port management experience, though it has built several port facilities throughout Latin America. ICA formed a joint venture with Philippines-based International Container Services, Inc (a stevedoring company) to make up for the container handling expertise ICA lacks. Alva Senzek, "Mexican Companies Win Plums in First Round of Port Privatization," *Traffic World* (July 1995): 35.

²⁰⁰ Ricardo Castillo Mireles, "Mexico Auctions Major Ports," *Transportation & Distribution* 36, no. 9 (September 1995): 49. With no international partners but a master plan to develop Altamira which authorities deemed viable "on a short term basis." Like ICA, REMACONST is closely associated with container handling in ports but has no direct port management experience. Alva Senzek, "Mexican Companies Win Plums in First Round of Port Privatization," *Traffic World* (July 1995): 35.

Manzanillo, (Pacific Coast).²⁰¹ Ispat Mexicana, a steel company, was awarded the Port of Lázaro Cárdenas (Pacific Coast), where most of the cargo handled would be loading steel at the docks with limited container traffic anticipated since this port would mainly be used by the steel mills Ispat Mexicana and Sicartsa.²⁰²

Despite the fact that the Mexican government remained the single owner of the infrastructure facilities, it sold all of its port-related equipment to the new port managers. The government opened to this different way of managing its ports and handed over economic risk to private port operators.²⁰³ While concessions lasted from 15 to 30 years, the Mexican government could at any time withdraw the concession should the concessionaire either mismanage the port or not fulfill the contract and follow through with the concessionaire's proposed master plan—both of which include building new warehousing facilities and making cargo handling twice as efficient.²⁰⁴

3. Colombia

As part of Colombia's broader privatization process, in the beginning of 1991, the enactment of a law changed the country's ports from SOEs to "private regional port societies as concessionaires responsible for administration and management of the general cargo ports, established the General Port Superintendent as regulator of the concessions, and defined conditions of operation to ensure free and fair competition among port societies and among port operators."²⁰⁵ Colombian ports were privatized by

²⁰¹ Ricardo Castillo Mireles, "Mexico Auctions Major Ports," *Transportation & Distribution* 36, no. 9 (September 1995): 49. TMM, Mexico's largest cargo ship operator, has even gone further in attempting to improve cargo shipping—it is still in the process of linking coasts by buying into the Texas-Mexico Railways, which operates in the state of Tamaulipas and southwestern Texas. TMM is accepting investment from Japan's Mitsui to improve railway cargo facilities between Altamira and Manzanillo. Alva Senzek, "Mexican Companies Win Plums in First Round of Port Privatization," *Traffic World* (July 1995): 35.

²⁰² Ricardo Castillo Mireles, "Mexico Auctions Major Ports," *Transportation & Distribution* 36, no. 9 (September 1995): 49.

²⁰³ Ricardo Castillo Mireles, "Mexico Auctions Major Ports," *Transportation & Distribution* 36, no. 9 (September 1995): 49.

²⁰⁴ Ricardo Castillo Mireles, "Mexico Auctions Major Ports," *Transportation & Distribution* 36, no. 9 (September 1995): 49.

²⁰⁵ Juan Gaviria, "Port Privatization and Competition in Colombia," *Public Policy for the Public Sector*, Note No. 167 (December 1998): 1–2, accessed November 29, 2010, <http://cdi.mecon.gov.ar/biblio/docelec/bm/ppps/N167.pdf>.

1993 when they were concessioned to different regional port authorities.²⁰⁶ The concessions were awarded for 20 years. These authorities did not provide services directly; instead they contracted with operators that used the facilities, an arrangement characteristic of the landlord port model.

Colombia opened to foreign private investment in its ports in a more restrictive manner than Ecuador and Mexico in that Colombia's opening to foreign private investment restricted both private and foreign investment. Importantly, and unlike the Ecuadorian and Mexican cases, Colombian legal structures limit private investment—including foreign—in ports with the ownership structure of the concession having a maximum of 70 percent private ownership. The remaining 30 percent of the ownership must be public, with the port infrastructure in particular remaining public. Also unlike Ecuador and Mexico, specific restrictions on foreign investment in the port sector exist in Colombia. According to article 1490 of Colombia's Commercial Code, the percentage of FDI in maritime entities was restricted to 30 percent. Additionally, in order to own a concession to provide port services the entity must be legally established in Colombia as a 'Public Corporation.'²⁰⁷

In Colombia, the ownership structure varied by port. For example, in Cartagena a few local private investors controlled 85 percent of the port society, in Buenaventura ownership was dispersed among roughly 210 shareholders and in Barranquilla a few private companies held 70 percent of the shares.²⁰⁸

²⁰⁶ The Sociedad Portuaria Regional de Baranquilla began operating, managing and marketing the Port of Baranquilla in 1993 with a 20 year concession. The Sociedad Portuaria Regional de Buenavenurta SA, formed in 1993, replaced the former state-owned operation to manage and administer the Port of Buenaventura also with a 20 year concession that began in 1994. "Port Detail," Port History. Port of Baranquilla, World Port Source, accessed April 08, 2011, http://www.worldportsource.com/ports/COL_Port_of_Barranquilla_189.php; "SPRB History." Corporate Info, Sociedad Portuaria Regional de Barabquilla SA, accessed April 08, 2011, http://www.sprb.com.co/index.php?option=com_content&task=view&id=3&Itemid=3.

²⁰⁷ United States Department of State, *2011 Investment Climate Statement—Colombia*, Bureau of Economic Energy and Business Affairs, March 2011, <http://www.state.gov/e/eb/rls/othr/ics/2011/157259.htm>.

²⁰⁸ Juan Gaviria, "Port Privatization and Competition in Colombia," *Public Policy for the Public Sector*, Note No. 167 (December 1998): 1–2, accessed November 29, 2010, <http://cdi.mecon.gov.ar/biblio/docolec/bm/ppps/N167.pdf>.

D. CONCLUSION

This chapter has provided an overview of neoliberal reform in Latin America, particularly in the countries Ecuador, Mexico, and Colombia. Of these countries, the Mexican government was more aggressive in implementing reform, and the governments of Colombia and Ecuador were less aggressive than Mexico, with the Ecuadorian government having implemented the least aggressive reforms of the three.²⁰⁹ Despite this, the governments of all three countries opened their economies to FDI and all three governments privatized their respective ports and opened them to foreign investment.²¹⁰

Referencing the second section on privatizing and opening to FDI, Colombia, like Mexico and Ecuador, saw privatizing many sectors as beneficial to the country's economic growth and stability. In the third section on port privatization what made Colombia unique in contrast to Ecuador and Mexico was that Colombia saw the need to restrict both foreign and private investment in ports, limiting foreign investors to 30 percent ownership of a port. This restriction on foreign investment could indicate a fear of infringement of national sovereignty, a concern not seen in the laws associated with Ecuador and Mexico opening to foreign private investment in their ports. As a result of this opening to private investment both the Ecuadoran and Mexican ports were invested in by non-domestic firms.

Now that we have a preliminary understanding of the way that Ecuador, Mexico and Colombia privatized and opened to foreign investment, including with regard to their respective ports, we can examine why these countries' ports would be attractive or not attractive for private investment by Chinese companies. Chapter IV will cover Chinese overseas investment methods and constraints.

²⁰⁹ Javier Corrales, "The Backlash Against Market Reforms in Latin America in the 2000s," in *Constructing Democratic Governance in Latin America*, 2nd ed. Jorge I. Domínguez and Michael Shifter, eds. (Baltimore, MD: Johns Hopkins University Press, 2003), 91.

²¹⁰ Manuel Agosin, *Foreign Direct Investment in Latin America* (Washington, DC: InterAmerican Development Bank, 1995), 4–5.

IV. CHINESE OVERSEAS FOREIGN INVESTMENT: OPPORTUNITIES AND CONSTRAINTS FOR PORT INVESTMENT

Chapter III laid out the methods through which Ecuador, Mexico and Colombia opened to investment and opened therefore to the potential for China to invest in these countries, including in the port sector. As a second step in examining how strong the alignment has been between how Chinese companies invest overseas and the policies of Ecuador, Mexico, and Colombia in opening to investment, this chapter looks at the Chinese side, analyzing how Chinese OFDI policy has developed and more importantly how this development has shaped the processes used by Chinese companies in venturing to invest overseas. Then chapter V will begin with a focus on Chinese port management companies laying out how these companies have invested overseas and in particular in the Latin American ports in Ecuador, Mexico and Colombia. Chapter V will finish with a recap of the policy governing the Latin American case countries ports, to explore how the alignment between Ecuadorian and Mexican policies, on the one hand, and Chinese OFDI policy, on the other, are much stronger than the China-Colombia alignment, explaining the lack of Chinese investment in Colombian ports.

This chapter seeks to lay out the development of Chinese OFDI and examine how the opportunities and constraints of China's OFDI development have had an impact on how Chinese companies invest overseas. It starts with an overview of China's OFDI policy development. The first subsection outlines China's relations with the developing world from the cold war onward as a historical backdrop. The next subsection begins with an introduction to China's OFDI policy development. The discussion on OFDI policy continues in the third subsection, defining the actors involved in the development of China's OFDI policy. The fourth subsection details the process through which Chinese OFDI developed in its three stages: phase 1 from 1979 to 1990 "Initiation", phase 2 from 1991 to 2001 "Unstable development." and phase 3 from 2002 until the present "Rapid and steady development." Finally, section two lays out how Chinese companies invest overseas as a result of the constraints of Chinese OFDI policy encountered by the companies facing foreign markets for the first time.

A. CHINA'S OFDI POLICY DEVELOPMENT

For the most part, throughout the world, research on FDI is prevalent. However, research on Chinese FDI, particularly government initiated FDI, is far less common.²¹¹ According to World Investment Report 1998, despite having the largest outflow of FDI since the early 1990s, there is limited academic notice in English literature of China's offshore plants and outward FDI despite the popularity of FDI as a topic.²¹²

Further, depicting Chinese overseas investment accurately is difficult considering the plethora of Chinese investments that are run through tax havens leaving its ultimate destination indiscernible.²¹³ This, coupled with the multitude of definitions used by different countries of what foreign direct investment is, pinpointing Chinese OFDI gets further complicated.²¹⁴ Additionally, statistics from MOFCOM and SAFE only reflect foreign investments that undergo the approval process in China and receive approval, leaving projects not officially approved but still executed out of these statistics.²¹⁵

²¹¹ Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 32.

²¹² Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 31. "The most relevant work on CGI outward investment has been done by Zhan (1993; 1995) and McDermont and Huang (1996). They show that access to foreign markets and to a stable supply of resources are the major motives for Chinese overseas investments. Other research has tended to focus on single sectors or small geographical areas, such as mining (Liu et al. 1993, Findlay 1994, and EAAU 1995) or textiles and clothing (Crowley et al. 1989), and on mainland Chinese investment in Hong Kong (Fung 1996).²¹² Within China, research has identified the need for FDI outflows (Chen and Zhang 1995; Xie 1994), policy issues (Liu et al. 1993; Liu and Yuan 1997), how China should establish general trading companies (after the manner of Japanese sogo shosha) through FDI outflow (Fang 1996) and how Chinese firms should select overseas partners (Yang 1996)." Eunsuk Hong and Laixiang Sun, "Dynamics of Internationalization and Outward Investment: Chinese Corporations' Strategies," *The China Quarterly*, 187 (2006), 611–612.

²¹³ Nargiza Salidjanova, *Going Out An Overview of China's Outward Foreign Direct Investment* (Washington, DC: US-China Economic and Security Review Commission, 2011), 2, <http://purl.fdlp.gov/GPO/gpo24706>.

²¹⁴ Nargiza Salidjanova, *Going Out An Overview of China's Outward Foreign Direct Investment* (Washington, DC: US-China Economic and Security Review Commission, 2011), 2, <http://purl.fdlp.gov/GPO/gpo24706>.

²¹⁵ The not officially approved statistics get left out of international statistics as well since the international statistics such as UNCTAD's World Investment Directory, rely on MOFCOM as the source of its Chinese OFDI statistics. Nargiza Salidjanova, *Going Out An Overview of China's Outward Foreign Direct Investment* (Washington, DC: US-China Economic and Security Review Commission, 2011), 2, <http://purl.fdlp.gov/GPO/gpo24706>.

Changing definitions of what FDI is from one year to another and/or changes in how the FDI is reported in some countries make FDI trend analysis near impossible.²¹⁶ Taking into account these limitations a discussion of Chinese OFDI follows in an attempt to analyze the investments of Chinese companies overseas, particularly in ports in Ecuador, Mexico and Colombia.

1. Historical Backdrop: China's Relations with the Developing World from the Cold War Onward

Before delving into the development of Chinese OFDI, a historical synopsis of China's relationships with the developing world will help place the examination of Chinese OFDI within the timeline of its overall relations with the world. During the cold war, the basis for China's relationship with the developing world was a mixture of ideology and practical foreign policy interests. China viewed the U.S. and Soviet Union as hegemonic powers and relied on its commonality with the "third world" to set itself apart from the U.S.-Soviet Union rivalry. In 1953 the Five Principles of Peaceful Coexistence was drafted, which served as the framework for Chinese foreign policy. According to Mitchell, the five principles namely, "mutual respect for territory and sovereignty, nonaggression, noninterference in internal affairs, equality and mutual benefit, and peaceful coexistence," not only appealed to China, but would appeal to all developing countries around the world that experienced the burden of Western colonialism.²¹⁷

Parting with this previously shared view with postcolonial governments in the developing world, the 1960s were characterized by significant Chinese moral and material support to violent communist revolutionary movements in Africa, Asia, and

²¹⁶ Nargiza Salidjanova, *Going Out An Overview of China's Outward Foreign Direct Investment* (Washington, DC: US-China Economic and Security Review Commission, 2011), 3, <http://purl.fdlp.gov/GPO/gpo24706>.

²¹⁷ Derek J. Mitchell, "China and the Developing World," in *China and the Developing World: Beijing's Strategy for the Twenty-First Century*, eds. Joshua Eisenman, Eric Heginbotham, and Derek Mitchell (Washington, DC: Center for Strategic and International Studies, 2007), 109.

Latin America.²¹⁸ In supporting these communist movements, China sought to be the global leader of international communism—competing with the Soviet Union both geopolitically and ideologically.²¹⁹ In the late 1970s China dealt with the developing world more pragmatically through the Chairman of the Chinese Communist Party, Deng Xiaoping, and his efforts to lessen the importance of ideology in Chinese national policy. In the 1980s China stopped supporting communist rebellions and started establishing political and economic relations with developed and developing countries. In order to garner capital, increase its influence, and demonstrate its pledge to foster relations with the developing world, China began support to countries such as Algeria, Iran, Pakistan, Saudi Arabia, and Syria militarily by sharing, among other things, nuclear technology and missile systems.

In the 1990s China maintained a policy of pragmatism and economic liberalization slowly building important economic ties and political relations with several countries despite recent Chinese aid to revolutionary insurgent movements in those countries. Chinese diplomacy changed from “hard-edged, uncompromising, and unsubtle” principles to a more amenable and charming face.²²⁰

2. Introduction: Chinese OFDI Policy Development

The decision to allow Chinese OFDI came with relatively substantial state control—largely through SOEs—ensuring OFDI would meet China’s long-term development goals with the broader strategy for economic nationalism focusing on the acquisition of energy, ensuring security of China, geopolitics and Chinese

²¹⁸ Derek J. Mitchell, “China and the Developing World,” in *China and the Developing World: Beijing’s Strategy for the Twenty-First Century*, eds. Joshua Eisenman, Eric Heginbotham, and Derek Mitchell (Washington, DC: Center for Strategic and International Studies, 2007), 109–110.

²¹⁹ Derek J. Mitchell, “China and the Developing World,” in *China and the Developing World: Beijing’s Strategy for the Twenty-First Century*, eds. Joshua Eisenman, Eric Heginbotham, and Derek Mitchell (Washington, DC: Center for Strategic and International Studies, 2007), 110.

²²⁰ Derek J. Mitchell, “China and the Developing World,” in *China and the Developing World: Beijing’s Strategy for the Twenty-First Century*, eds. Joshua Eisenman, Eric Heginbotham, and Derek Mitchell (Washington, DC: Center for Strategic and International Studies, 2007), 110.

competitiveness²²¹ In China, 1978 marked the beginning of 30 years of economic reform with the initiation of Chinese “Open-Door” policies.²²² With the goals of changing the national organization and integrating the Chinese economy and its businesses into the global economy, China has become significantly more important as a source of FDI to developing countries. Prior to 1978 China’s economy was a closed planned system. With economic reforms came a “two economic systems, one country” setup in the 1980s and into the mid-1990s, only to move from that setup to a “much more market-based economy.”²²³ China’s OFDI developed in a similar manner. Discussion of the actors involved in Chinese OFDI and its three major periods of development in the following sections, show how changes in regulation and policy during this time period had a significant impact on OFDI in particular. Furthermore, with the institution of the 1999 “Go Global” policy even more support has been given to OFDI by the substantial changes in OFDI regulation which have played a role in the increase of Chinese OFDI since 2000.

3. Actors

China underwent substantial changes in its 30 years of economic reform. These changes were laden with ambiguity of roles and responsibility, which—coupled with the plethora of government agencies involved—meant that inadvertently the institutional framework could serve to hinder the processes it was meant to help facilitate, namely the development of Chinese investment overseas. Several important political and administrative actors in China encroached upon Chinese OFDI development. Outward investing companies first had to face the laws and regulations established by these government actors to put together a business plan for investing overseas and then again

²²¹ Nargiza Salidjanova, *Going Out An Overview of China’s Outward Foreign Direct Investment* (Washington, DC: US-China Economic and Security Review Commission, 2011), 4, <http://purl.fdlp.gov/GPO/gpo24706>.

²²² Hinrich Voss, Peter J. Buckley, and Adam R. Cross, “Thirty Years of Chinese Outward Foreign Direct Investment,” in *19th CEA UK Conference: China’s Three Decades of Economic Reform (1978–2008)* (Cambridge, UK: Cambridge University, 2008), 1.

²²³ Hinrich Voss, Peter J. Buckley, and Adam R. Cross, “Thirty Years of Chinese Outward Foreign Direct Investment,” in *19th CEA UK Conference: China’s Three Decades of Economic Reform (1978–2008)* (Cambridge, UK: Cambridge University, 2008), 2.

during the overseas investment approval process. This discussion in this section of the actors involved with OFDI policy development is meant to help clarify who the actors were, when they were active and what roles they played in OFDI policy development. This ties in with the larger thesis in that these actors were directly involved in shaping what a Chinese company would have to do in order to be able to invest overseas.

There are four levels into which these key central government actors can be categorized, with the top level having the most power and broadest influence in terms of the number of sectors influenced, and the lowest level, the least power and narrowest influence. The key actors include the State Council, the National Development and Reform Commission (NDRC), the State Administration for Foreign Exchange (SAFE), the Ministry of Commerce (MOFCOM), the People's Bank of China (PBC), the Ministry of Finance (MOF), and China Securities Regulatory Commission (CSRC).²²⁴ The levels into which each actor is categorized are stated in the descriptions of the different actors below.

The State Council, at the top, is responsible for managing the country's government as well as major decisions involving the Chinese economy and society. It is the most powerful body in the Chinese central government for outlining and developing policies, laws, and regulations, and for coordinating national economic growth. It deals with foreign affairs and completes bilateral treaties.²²⁵ Additionally, the State Council makes decisions regarding important economic policies and liberalization methods even

²²⁴ Hinrich Voss, Peter J. Buckley, and Adam R. Cross, "Thirty Years of Chinese Outward Foreign Direct Investment," in *19th CEA UK Conference: China's Three Decades of Economic Reform (1978–2008)* (Cambridge, UK: Cambridge University, 2008), 2; Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 2, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf; Bing Ren, Hai Liang, and Yeng Zheng, "An Institutional Perspective and the Role of the State for Chinese OFDI," in *Chinese International Investments*, eds. Ilan Alon, Marc Fetscherin, and Philippe Gugler (Houndmills, Basingstoke, Hampshire: Palgrave Macmillan, 2012), 16.

²²⁵ Hinrich Voss, Peter J. Buckley, and Adam R. Cross, "Thirty Years of Chinese Outward Foreign Direct Investment," in *19th CEA UK Conference: China's Three Decades of Economic Reform (1978–2008)* (Cambridge, UK: Cambridge University, 2008), 2–3.

though the policy proposals may have been generated by a lower organization, for example SAFE or MOFCOM.²²⁶ The State Council ultimately outlines the long term plan for all of China's OFDI.²²⁷

SAFE, NDRC, and MOFCOM make up the next level. They are subordinate to the State Council though they may also issue specific policies. They are responsible for the management of overseas investment.²²⁸ SAFE has been in existence since 1979 and administers the usage and flow of foreign exchange. It was initially under the Bank of China then from 1982 onwards was under the new central bank, the PBC.²²⁹ Under both the Bank of China and the PBC, SAFE was fairly independent. This changed with restructuring of the government in 1998.

The NDRC, formerly the State Development and Reform Commission, functions as the key government organ in the design, regulation and coordination of Chinese economic development and industrial policy.²³⁰ The NDRC also played an important role in the approval of investment overseas through its responsibility to keep equilibrium in balance of payments.²³¹

MOFCOM was instituted in its existing structure and role in 2003, though its predecessor organizations, MOFTEC and MOFERT, have been shaping Chinese OFDI

²²⁶ Hinrich Voss, Peter J. Buckley, and Adam R. Cross, "Thirty Years of Chinese Outward Foreign Direct Investment," in *19th CEA UK Conference: China's Three Decades of Economic Reform (1978–2008)* (Cambridge, UK: Cambridge University, 2008), 3.

²²⁷ Bing Ren, Hai Liang, and Yeng Zheng, "An Institutional Perspective and the Role of the State for Chinese OFDI," in *Chinese International Investments*, eds. Ilan Alon, Marc Fetscherin, and Philippe Gugler (Houndmills, Basingstoke, Hampshire: Palgrave Macmillan, 2012), 16.

²²⁸ Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 2.

²²⁹ "SAFE evolved from the State Administration of Exchange Control (SAEC) in 1994 which itself succeeded in 1982 the State General Administration for Exchange Control (SGAEC). For simplification purposes, this study uses the term SAFE throughout, while acknowledging that responsibilities and scope have varied between the three organizations." Hinrich Voss, Peter J. Buckley, and Adam R. Cross, "Thirty Years of Chinese Outward Foreign Direct Investment," in *19th CEA UK Conference: China's Three Decades of Economic Reform (1978–2008)* (Cambridge, UK: Cambridge University, 2008), 3.

²³⁰ Hinrich Voss, Peter J. Buckley, and Adam R. Cross, "Thirty Years of Chinese Outward Foreign Direct Investment," in *19th CEA UK Conference: China's Three Decades of Economic Reform (1978–2008)* (Cambridge, UK: Cambridge University, 2008), 4.

²³¹ Hinrich Voss, Peter J. Buckley, and Adam R. Cross, "Thirty Years of Chinese Outward Foreign Direct Investment," in *19th CEA UK Conference: China's Three Decades of Economic Reform (1978–2008)* (Cambridge, UK: Cambridge University, 2008), 5.

policy and regulation for much longer.²³² MOFCOM's responsibilities provide it with both direct and indirect influence and guidance over the extent and focus of Chinese OFDI. MOFCOM issued the first Chinese OFDI regulation in 1984. According to Voss, Buckley and Cross, the main responsibility of MOFCOM in relation to Chinese OFDI includes oversight on Chinese OFDI through producing and putting into effect policies and regulations and determining if a non-financial OFDI project is worthy of approval. MOFCOM also is responsible for making sure Chinese law aligns with international treaties and agreements and for the coordination of China's "foreign aid policy and relevant funding and loan schemes."²³³

Despite the State Council being the most powerful agency involved in the development of OFDI, NDRC, MOFCOM and SAFE were the most important agencies in OFDI policy development based on the involvement each agency had in producing policy. Since the 1980s, they produced at least 56.1 percent of these policies. However even though State Council only produced 5.9 percent of policy, it had a tremendous influence on OFDI policy as discussed later in the chapter.²³⁴

The PBC, MOF, and CSRC make up the third level. They have the responsibility of a variety of fields including finance and taxation. At this level, the departments involved are primarily responsible for helping to ensure that the upper ministries coordinate policies with other policies already in existence and to help in issuing and

²³² MOFCOM evolved from the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and in 2003 became responsible for the domestic trade, foreign economic coordination and the coordination of international trade of industrial products, raw material and semi-finished products activities of the State Economic Trade Commission and the State Development and Planning Commission. MOFTEC was the successor organization to the Ministry of Foreign Economic Relations and Trade (MOFERT) following reorganization in 1993. For simplification, we use the term MOFCOM throughout while acknowledging that specific responsibilities and scope of function vary between the three organizations.

²³³ Hinrich Voss, Peter J. Buckley, and Adam R. Cross, "Thirty Years of Chinese Outward Foreign Direct Investment," in *19th CEA UK Conference: China's Three Decades of Economic Reform (1978–2008)* (Cambridge, UK: Cambridge University, 2008), 3.

²³⁴ Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 2, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

implementing policies.²³⁵ The PBC, MOF, and CRSC played an important role to Chinese OFDI policy having produced 20 percent of policies issued regarding overseas investment.²³⁶

The fourth and lowest level consists of subordinate departments to each ministry, for example the ministries responsible for mining, agriculture and forestry. They are subordinate to the upper ministries, and are responsible for policies in their respective sectors but have less influence on determining overseas investment within their respective sectors. The departments at this level have key responsibilities though since they are the main agencies in charge of implementing these policies for their respective sectors at the lowest level.

The complexity of the political and administrative actors as explained above is a result of and reflects the multitude of reorganizations of the government system in China to facilitate the evolution of the Chinese economic system from a planned system to a market based system.²³⁷ Because the delineation of responsibility of each of the actors was not always apparent and because of the continuous change in the reform process, coupled with the many government agencies involved in the process potentially with opposing interests both between and within these same government agencies it is easy to see how this institutional framework could hinder the overall development of Chinese OFDI and discourage smaller SOEs and privately-owned companies all together.²³⁸

²³⁵ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 2, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²³⁶ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 2, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²³⁷ Hinrich Voss, Peter J. Buckley, and Adam R. Cross, “Thirty Years of Chinese Outward Foreign Direct Investment,” in *19th CEA UK Conference: China’s Three Decades of Economic Reform (1978–2008)*, *19th CEA UK Conference: China’s Three Decades of Economic Reform (1978–2008)* (Cambridge, UK: Cambridge University, 2008), 5. The involvement and responsibilities of the government authorities have varied since 1978 in accordance with a gradual liberalisation and decentralisation of the approval process. This process mirrors the general pattern of economic reform in China, which is generally associated with decentralisation and a careful introduction of market forces (Child and Tse, 2001; Boisot and Child, 1996).

²³⁸ Hinrich Voss, Peter J. Buckley, and Adam R. Cross, “Thirty Years of Chinese Outward Foreign Direct Investment,” in *19th CEA UK Conference: China’s Three Decades of Economic Reform (1978–2008)* (Cambridge, UK: Cambridge University, 2008), 5.

It is evident that over the past 30 years part of the intent of Chinese economic reform has been to encourage private companies. Throughout the reform process, the role of the private company has grown substantially, becoming a significant part of China's economy as well as frequently gaining the confidence and ability to delve into and undertake foreign business opportunities.²³⁹ However, an important factor in private companies' willingness to venture to invest overseas is influenced by the policies put in place, discussed in the next section. Though the process was laden with bureaucracy, the overarching goal of the Chinese government—through policy development and implementation by various actors at differing levels of government—was to encourage individual companies to make overseas investments. The stages in China's OFDI policy development in the next section show the transition from more restrictive to less restrictive policies on China's OFDI.

4. Stages in China's Overseas Investment Policy Development

There have been three stages in the development of China's overseas investment policy. In the first stage OFDI was limited to SOEs. In the second stage the Chinese government loosened up its restrictions and its OFDI began to grow. The second stage of the OFDI policy development from 1991 until 2001 sets the policy in China for the Chinese port management companies, in focus for this thesis, to be able to invest overseas in the early 2000s. The final stage covers the period during which China actively promoted OFDI and includes the rapid expansion of its OFDI.

From 1979 to 2001—the first two stages of Chinese overseas investment development—there were roughly four new policies per year. This was even a low number compared to the prior years. With the economic planning system and its restrictive management there was a lack of investment stimulation and consequently there was very little investment activity. Despite their restrictive management system and with

²³⁹ Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 21, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

the increase of focus in the national economy on overseas investment it was then, in the third stage, when the Going Out strategy was officially developed.²⁴⁰

Based on the research available, we can see that over the past three decades a gradually increasing number of Chinese companies have looked overseas to invest. Manufacturing companies were even encouraged by the Chinese government to invest in other countries. This was a deliberate and strategic move to organize transnational activities.²⁴¹ Chinese OFDI policies have been varied in terms of regularity over time and strategic objective.²⁴² The flows of Chinese overseas investment since the 1980s can be divided into three different stages, 1) initiation from 1979 until 1990, 2) unstable development from 1991 until 2001, and 3) rapid and steady development from 2002 until present.²⁴³

a. Phase 1: 1979–1990 Initiation

As a result of the political effects of the Cultural Revolution (1966–1976), China shifted its national development strategy to concentrate on growing and renewing the

²⁴⁰ Mark Wang, Michael Webber and Zhu Ying, “China Goes Out: Investing Overseas,” in *China’s Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 31. “The most relevant work on CGI outward investment has been done by Zhan (1993; 1995) and McDermont and Huang (1996). They show that access to foreign markets and to a stable supply of resources are the major motives for Chinese overseas investments. Other research has tended to focus on single sectors or small geographical areas, such as mining (Liu et al. 1993, Findlay 1994, and EAAU 1995) or textiles and clothing (Crowley et al. 1989), and on mainland Chinese investment in Hong Kong (Fung 1996). Within China, research has identified the need for FDI outflows (Chen and Zhang 1995; Xie 1994), policy issues (Liu et al. 1993; Liu and Yuan 1997), how China should establish general trading companies (after the manner of Japanese sogo shosha) through FDI outflow (Fang 1996) and how Chinese firms should select overseas partners (Yang 1996).” Eunsuk Hong and Laixiang Sun, “Dynamics of Internationalization and Outward Investment: Chinese Corporations’ Strategies,” *The China Quarterly*, 187 (2006), 611–612.

²⁴¹ Mark Wang, Michael Webber and Zhu Ying, “China Goes Out: Investing Overseas,” in *China’s Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 31.

²⁴² Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 5, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁴³ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 1, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

economy.²⁴⁴ In the 1980s and 1990s when increasing market liberalization and support of private enterprise was characteristic, most companies still operated within the institutions of the state economic planning system. Their activities were controlled by government regulations which were “within the general rubric of the ‘socialist market economy’ reform process” according to Wenbin and Wilkes.²⁴⁵ Overseas investment was dealt with carefully and only certain state-owned companies were afforded the chance to invest overseas.²⁴⁶ Additionally, due to limited foreign exchange reserves and very rare overseas investments, investment flows were small, on the average of less the U.S. \$0.9 billion per year.²⁴⁷

The first phase can be organized into two distinct time periods: 1979–1982 and 1983–1990.²⁴⁸ Before 1983, OFDI approval was very centralized in Beijing, with all overseas investment projects requiring approval by the State Council.²⁴⁹ The period from 1979 to 1982 was a cautious phase.²⁵⁰ The first official Chinese OFDI regulation was

²⁴⁴ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 1, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁴⁵ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 1, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁴⁶ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 1, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf; Nargiza Salidjanova, *Going Out An Overview of China’s Outward Foreign Direct Investment* (Washington, DC: US-China Economic and Security Review Commission, 2011), 4, <http://purl.fdlp.gov/GPO/gpo24706>.

²⁴⁷ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 1, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁴⁸ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 5, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁴⁹ Mark Wang, Michael Webber and Zhu Ying, “China Goes Out: Investing Overseas,” in *China’s Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 43.

²⁵⁰ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 5, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf; Li Zhaoxi “China’s Go Global Policy,” in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 38.

issued in the State Council's "Fifteen Economic Reform Measures in August, 1979."²⁵¹ Though the 13th measure clearly states "It is permitted to set up enterprises in foreign countries,"²⁵² because of inexperience in investing overseas and minimal foreign exchange reserves, overseas investment was strictly controlled and there were very few authorized overseas investments.²⁵³ In this period, the State Council examined all Chinese international investment projects and was the approving authority.

From 1983 to 1990 investment overseas was enthusiastically encouraged by the Chinese government relative to the previous period 1972–1982. It was encouraged by way of the implementation of many policies favorable to facilitating the investment activities of SOEs by four levels of key central government actors. Prior to 1983, the State Council primarily processed individual cases for overseas investment and there was no standard procedure in place. However, in 1983, the administration of and authority to approve overseas investments was decentralized by the State Council to MOFTEC at the ministry level.²⁵⁴

²⁵¹ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 38; Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 5, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁵² Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 5, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁵³ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 38.

²⁵⁴ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 38; Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 7, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf; Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 43.

MOFTEC also laid the groundwork for the process for joint-ventures to invest overseas in 1983.²⁵⁵ The procedures for approval were loosened for small projects and projects in which the materials were from China or the equipment was made in China.²⁵⁶ In order to establish a joint-venture overseas, which would entail a project costing U.S. \$1 million or more (other than projects from Hong Kong and Macau), the Chinese investor had to first go through investing firms' supervising authority at the level of the municipal, provincial, or autonomous regional government departments, then go through the responsible agencies of the destination of investment and after all this MOFTEC would decide whether to approve it or not.²⁵⁷ For smaller projects—i.e., those less than U.S. \$1 million—the relevant department within the investing company could seek approval directly from the Chinese Embassy.²⁵⁸ Despite loosening of restrictions and the implementation of policies favoring Chinese OFDI, from 1986 to 1990 Chinese OFDI was only U.S. \$9.2 million per year.²⁵⁹

In 1985, a MOFTEC publication defined the basic administration system of Chinese OFDI by changing the examination and approval of individual cases to a standardized approval procedure. The publication was called “Approval procedures and administrative method for establishing non-trade management JVs overseas.” It

²⁵⁵ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 7, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf; Mark Wang, Michael Webber and Zhu Ying, “China Goes Out: Investing Overseas,” in *China’s Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 43; Li Zhaoxi “China’s Go Global Policy,” in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 38.

²⁵⁶ Mark Wang, Michael Webber and Zhu Ying, “China Goes Out: Investing Overseas,” in *China’s Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 43.

²⁵⁷ Mark Wang, Michael Webber and Zhu Ying, “China Goes Out: Investing Overseas,” in *China’s Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 43; Li Zhaoxi “China’s Go Global Policy,” in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 38.

²⁵⁸ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 7, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf; Li Zhaoxi “China’s Go Global Policy,” in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 38.

²⁵⁹ Li Zhaoxi “China’s Go Global Policy,” in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 38.

simplified the procedure, shortened the approval time, defined the conditions for foreign investment and pointed out that the right to overseas investment was not restricted to certain enterprises.²⁶⁰

The years 1984 and 1985 showed rapid expansion in overseas investment.²⁶¹ Capital outflow from China nearly tripled that of the previous five years with a total of U.S. \$130 million.²⁶² However, this stage was still considered an experimental stage.²⁶³ In fact, until 1985 only 143 Chinese companies were established overseas having invested a mere U.S. \$170 million (less than three percent of China's inward FDI).²⁶⁴ Roughly 20 Chinese companies established operations overseas, for the most part in the service sector and in particular Chinese restaurants primarily in the major cities or Chinatowns of the host countries including the United States, Japan and Thailand.²⁶⁵ Overseas investment in other service sectors, including construction and shipping, was mainly located in Hong Kong and Macao.²⁶⁶

The success of the experimental stage of investing prompted the Chinese government to be more aggressive with outward investment. So much so that the mid-

²⁶⁰ Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 7, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf; Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 38–39.

²⁶¹ Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 43.

²⁶² Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 43.

²⁶³ Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 43.

²⁶⁴ Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 43.

²⁶⁵ Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 43.

²⁶⁶ Headquartered in Hong Kong was one of two of China's most significant international shipping companies: Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 43.

1980s were characterized by even more rapid growth of OFDI that was facilitated by the central government through simpler and less restricted OFDI policy on non-trade-related OFDI.²⁶⁷ As a result more than 600 new Chinese companies invested at least U.S. \$860 million in more than 90 countries.²⁶⁸ Roughly 100 new companies were established annually, a drastic increase compared to roughly 20 in earlier years. China's number of TNCs compared to the global total remained insignificant, but it was still tremendous growth for China. While the number of TNCs in the world grew at a rate of 29 percent annually, China's grew at 42 percent.²⁶⁹

Overseas operations for China changed in this stage and began to transition from Chinese restaurants to the exploitation of natural resources.²⁷⁰ While other service sectors such as assembly and transport were important during this stage, the projects in natural resource development dominated China's overseas investment agenda.²⁷¹ Some of the most significant natural resource exploiters were large Chinese SOEs.²⁷² Though Chinese investors were mostly attracted to investing in developed countries, 18 percent of newly established overseas companies were in Africa, 50 per cent were in Asia.²⁷³

²⁶⁷ Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 43.

²⁶⁸ Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 43.

²⁶⁹ Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 45.

²⁷⁰ Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 45.

²⁷¹ Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 45.

²⁷² Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 45.

²⁷³ Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 45.

The role of SAFE in approval of investments overseas was instituted from two documents it published.²⁷⁴ In 1989 SAFE issued the policy “Foreign exchange management method for overseas investments” and in 1990 put in place implementation regulations.²⁷⁵ Before seeking approval from MOFCOM, SAFE, based on the resources certification provided by the company, would evaluate the risk of investment by reviewing the company’s foreign exchange resources through the foreign exchange management system for Chinese investment overseas.²⁷⁶

If the risk was acceptable and permission was granted by MOFCOM, next, the company had to file a significant amount of paperwork with SAFE, including the MOFCOM approval, the foreign exchange resources review, the project contract and certification information having to do with the amount of foreign exchange, if the company was transferring foreign exchange out of the country. Additionally, SAFE required that companies retain five percent of foreign exchange as a profit deposit.²⁷⁷ According to Wenbin and Wilkes, “This regulation was in force for more than 10 years and had a strong influence on foreign exchange management.”²⁷⁸

In 1989, two significant publications were issued to fortify accounting management, “Temporary management method for foreign trading, financial and insurance companies” ²⁷⁹ by PBC and “Temporary method for non-trade foreign

²⁷⁴ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 7, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁷⁵ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 7, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁷⁶ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 7, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁷⁷ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 7, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁷⁸ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 7, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁷⁹ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 7, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

exchange accounting management for overseas units” by MOFCOM.²⁸⁰ These publications contained regulation that outlined the extent of state-owned capital, benefit sharing processes and accounting administration methods for companies with investments overseas and complemented the developing overseas investment management system.²⁸¹

The increase in investment overseas by China in the 1980s is only partially explained by these policies.²⁸² With the inflexible and complex application and approval process, the interest of Chinese companies was limited to a certain degree.²⁸³ With that said, though, these policies were integral in establishing the foundation for China’s overseas investment management system.²⁸⁴ MOFCOM and SAFE were recognized as the key players and their influence continued for the next two decades.²⁸⁵ The period from 1984 to 1991 was characterized by an increase in FDI of up to U.S. \$0.2 billion each year and an increase in the amount of investment by each enterprise to U.S. \$1.4 million.²⁸⁶

²⁸⁰ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 8, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁸¹ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 8, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁸² Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 8, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁸³ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 8, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁸⁴ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 8, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁸⁵ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 8, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁸⁶ Li Zhaoxi “China’s Go Global Policy,” in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 39.

b. Phase 2:1991–2001 unstable development

During this time period there was a significant increase in the total amount of Chinese investment overseas which manifested China's movement towards overseas investment opportunities for Chinese business. However, because economic growth instead was given priority, investment flows were unstable with substantial fluctuations over the years. From 1991 to 1992 overseas investments went from just above U.S. \$0.9 billion to U.S. \$4 billion. Through 1993 the investment level remained stable but it declined 50 percent in 1994 to U.S. \$2 billion. From 1995 to 1998 there was a steady increase, but then it dropped in 1999 to the level of investment in 1991.²⁸⁷ Though there were numerous complex factors that contributed to this instability, alterations in policies during this stage played a key role.²⁸⁸

Phase 2 has two distinct periods as well. During the first period, from 1991 to 1998, there were numerous restraining policies issued by the Chinese government and the Chinese government increased its control over large investments. During the second period, from 1999–2001, the plan to “Develop international economy cooperation and trade” was initiated and associated policies were published.²⁸⁹ This encouraged the progress of investment overseas in processing and assembly businesses.²⁹⁰

(1) Phase 2a: 1991–1998

As a result of the increased Chinese OFDI of the previous phase, the period was characterized by unfocused and unrealistic investments which frequently failed and ended with the capital being stolen by key personnel from the failed company who would then

²⁸⁷ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 1, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁸⁸ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 1, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁸⁹ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 8, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁹⁰ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 8, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

flee abroad.²⁹¹ These occurrences manifested the inadequacies of international management at the company level as well as the flaws of China's OFDI administrative system.²⁹² As a solution, the approval procedures for OFDI (including investment in Hong Kong and Macau) were revised in 1991 with the "Notice on Strengthening the Control of Foreign Investment." During this time period there were numerous policies put in place. Table 5 depicts each policy instituted, the governing body that instituted it and what the intention and result of the policy was.

Unlike the previous period, which was characterized by resource hunting, after 1991 the Chinese government chose numerous mature manufacturing sectors to set up overseas operations.²⁹³ Also, during the 1990s when international trade and cooperation was encouraged, numerous private enterprises were also granted import and export licenses and took part in overseas investments in processing and assembly.²⁹⁴ Reforms in the system encouraged private investment overseas and unambiguously legalized their role.²⁹⁵ As such, in the initial reform of the approval system of foreign exchange management, private companies were actually treated the same as SOEs.²⁹⁶

²⁹¹ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 39.

²⁹² Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 39.

²⁹³ Mark Wang, Michael Webber and Zhu Ying, "China Goes Out: Investing Overseas," in *China's Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 46.

²⁹⁴ Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 22, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁹⁵ Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 22, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

²⁹⁶ Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 22, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

Table 5. Analysis of China's Overseas Investment Policies²⁹⁷

Year	Org.	Published	Purpose/Result
1991	State Council	"Opinion on the National Planning Commission reinforcing control of overseas investment projects."	Control investments overseas; made approval requirements stricter for large investments; changed application and approval process transferring some of the approval authority for investment overseas from MOFTEC to the NPC and the State Council ²⁹⁸
1991	National Planning Commission (NPC)	"Regulations on developing and approving project proposals and feasibility reports for overseas investments."	Declared NPC's significant role in approving investments overseas; highlighted importance of the development and approval investment project proposals, feasibility reports and State Council's approval implementation regulation
	SAFE	"Circular to unify the specification of overseas investment risk and foreign exchange resource reviews."	In response to the State Council's "opinions;" standardized the application materials required for review
1993	SAFE	"Specification of overseas investment risk and foreign exchange resource reviews."	To fine-tune the foreign exchange approval process based on the "Opinion"
1992	MOFTEC	"Temporary regulations on approval and management for establishing non-trade overseas companies."	To strengthen control over "non-trade overseas companies"

²⁹⁷ Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 8–9, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf

²⁹⁸ Made NPC responsible for reviewing investment project proposals and project feasibility reports for projects of less than US \$1 million; made the State Council responsible for approving projects of more than \$30 million; made MOFCOM responsible only for reviewing the project contract and the bylaws of companies and for issuing the approval document.

Year	Org.	Published	Purpose/Result
1996	MOF	“Temporary method on overseas accounting management.”	To regulate and supervise the accounting management of overseas projects

The procedures of examination and approvals for OFDI put in place in 1991 strengthened control over OFDI, in particular with regard to large-scale foreign investment, compared to the 1985 system.²⁹⁹ For projects less than U.S. \$1 million (small projects) there were more steps with review by three departments rather than two. For projects more than U.S. \$1 million there were more steps with review by five departments rather than three.³⁰⁰ Additionally, the examination went into more detail including project proposals, feasibility reports, contracts and statutes.³⁰¹ But, at the same time, provincial governments were given the authority to give approval for projects of less than U.S. \$1 million.³⁰² In this system, investments of less than U.S. \$1 million were able to get permission from MOFCOM and its local branches within three days and underwent simplified approval procedures.³⁰³

²⁹⁹ Li Zhaoxi “China’s Go Global Policy,” in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 39.

³⁰⁰ Li Zhaoxi “China’s Go Global Policy,” in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 39.

³⁰¹ Li Zhaoxi “China’s Go Global Policy,” in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 39.

³⁰² Huang Wenbin, and Andreas Wilkes, “China’s Go Global Policy” (Working paper 79, Center for Forestry Research, Bogor, Indonesia, 2011), 22, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

³⁰³ Such a strategic reorientation changed the sectoral distribution of CGI overseas investment. For example, in 1991, over 60 percent was in the resource development sector (Liu and He 1993) but by 1997, only 31 percent of investment was in resource development, with 23 percent in the tertiary sector and 46 percent in manufacturing and agriculture (Table 3.7 and 3.8). Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 22–23, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf; Mark Wang, Michael Webber and Zhu Ying, “China Goes Out: Investing Overseas,” in *China’s Transition to a Global Economy*, eds. Michael John Webber, Mark Wang, Ying Zhu (Gordonsville, VA: Palgrave Macmillan, 2003), 46.

Accompanying the energized economy from 1989–1992 was recession and inflation.³⁰⁴ In the meantime, it became apparent that the number of investments overseas that failed was growing and lack of restrictions caused significant loss in state owned capital.

MOFTEC began drafting the “Regulation on the Administration of Chinese Overseas Enterprises” in 1993 to improve the administration of the increasing number of overseas investments.³⁰⁵ MOFTEC was made the manager of the examination and approval process and was made responsible for the administration of overseas enterprises and OFDI policies. NDRC was made the manager of the examination and approval of project proposals and the feasibility reports of overseas investments.³⁰⁶ MOFTEC approved the economic and commercial department in Chinese embassies which subsequently managed the administration of Chinese enterprises overseas.

(2) Phase 2b, 1999–2001

This time period served as a transition phase for China’s Going Out Strategy. The Chinese government published numerous favorable policies with their growing appreciation of the significance of investment overseas and recognizing the potential for driving development within the domestic economy.³⁰⁷

³⁰⁴ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 8, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf.

³⁰⁵ Li Zhaoxi “China’s Go Global Policy,” in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 39.

³⁰⁶ The clear-cut division of duties among different government departments and the establishment of relevant policies constituted the basis for China’s FDI administrative system. This system resulted in the rapid development of various types of foreign investment. During this period, China increased its FDI to US \$0.7 billion per year, while the scale of investment per enterprise dropped to US \$1.06 million. The clear-cut division of duties among different government departments and the establishment of relevant policies constituted the basis for China’s FDI administrative system. This system resulted in the rapid development of various types of foreign investment. During this period, China increased its FDI to US \$0.7 billion per year, while the scale of investment per enterprise dropped to US \$1.06 million. Li Zhaoxi “China’s Go Global Policy,” in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 40.

³⁰⁷ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 9, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf; Nargiza Salidjanova, *Going Out An Overview of China’s Outward Foreign Direct Investment* (Washington, DC: US-China Economic and Security Review Commission, 2011), 5, <http://purl.fdlp.gov/GPO/gpo24706>.

Following the Asian Financial Crisis in 1997, Chinese outward trade was a significant economic growth point for China due to its increasing contribution to the Chinese economy. The crisis had a serious effect on China's exports with the fall of market demand in Southeast Asia in the second part of 1998. The competitiveness of Chinese merchandise was reduced due to the weak currencies of Southeast Asia against the comparatively strong Yuan. The Chinese government's solution to this problem, as well as promoting economic development domestically, was to take advantage of less expensive overseas labor and raw materials. This solution indirectly enhanced investment overseas.³⁰⁸

In order to benefit from China's advantage in some industries, to encourage exports and to hasten changes to the industrial structure, the State Council published "Opinion on Encouraging Companies to Carry Out Overseas Material Processing and Assembly."³⁰⁹ This policy document returned the authorization rights for overseas investment to MOFTEC from the NPC. The return of authority to MOFTEC eradicated some previously strict restraints.³¹⁰ Following the implementation of the policy, overseas investment processing and assembly increased leading to overseas processing and trade becoming a new point of Chinese economic growth. Later, twelve policies were published by MOFTEC and other relevant departments to promote the development of overseas processing and assembly operations. Each of these policies addressed different aspects of investing overseas, to include finance and taxation issues.³¹¹

When, at the Fifth Plenary Session of the 15th Congress of the Chinese Communist Party held in 2000, the decision to initiate the Going Out Strategy was made,

³⁰⁸ Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 9, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf

³⁰⁹ Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 9, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf

³¹⁰ Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 9, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf

³¹¹ Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 9, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf

the “Suggestion to Develop the 11th Five Year Plan for National Economic and Social Development” was published.³¹² In the “Suggestion” processing, trade, resource extraction, and project contracting were listed as the four main investment types to be promoted and it was proposed to offer policy for investment overseas support in the form of credit, insurance and other helpful services.³¹³ According to Wenbin and Wilkes, “The 11th Five Year Plan outlined policy directions for the following five years and created a sound environment for overseas investment.”³¹⁴ The Going Out Strategy was integrated with the “Outline of the 11th Five Year Plan for National Economic and Social Development” in 2001. Highlighted were seven needs:

- to encourage overseas investments to enhance China’s competitiveness and expand the scope and modalities of China’s international economic and technical cooperation;
- to continue to develop overseas project contracting and labor service cooperation, and encourage competitive companies to explore processing and trading overseas, thereby promoting export of products, services and technology;
- to support companies in exploring resources overseas that were in short supply domestically and promote adjustment of the sectoral structure of resources trade;
- to encourage the use of foreign intellectual property resources to establish research and development and design operation centers overseas;
- to support capable companies in developing transnational operations to achieve internationalized development;
- to improve the overseas investment service system and create a good investment environment for companies through improvements in systems governing finance, insurance, foreign exchange, taxation, intellectual property rights, laws and regulations, information services and entry and exit management; and

³¹² Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 9, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf

³¹³ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 9, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf

³¹⁴ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 9, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf

- to improve corporate governance structures and internal regulatory mechanisms to regulate and supervise overseas investments.³¹⁵

According to Wenbin and Wilkes, “This document marked the birth of China’s Going Out strategy and the comprehensive development of China’s overseas investments.”³¹⁶ Furthermore it laid the foundation for policies over the next 10 years and marked the beginning of a new phase of Chinese investment overseas. The substantial growth in Chinese investment overseas consequently drew a significant amount of attention.

(3) Phase 3:2002–PRESENT Rapid and Steady Development

At the 16th National Congress of the Chinese Communist Party, held in Beijing in 2002, then President Jiang Zemin (1993–2003) emphasized the significance of overseas investments in the broader national reform and liberalization strategy. Zemin “encouraged and supported companies with comparative advantages to make overseas investments in order to promote commodities and labor service exports as means of establishing competitive multinational companies and international brands.”³¹⁷ As a result of the 16th Congress, China changed its overseas investment policy process and currently issues policies to promote the growth of the development of Chinese investment overseas.

Putting into practice these policy measures strengthened China’s regulatory activities and improved the profitability of Chinese overseas companies, particularly from 2006 onward. Though there was an increase in the number of investments that failed during this time period, generally speaking the policies implemented during this time period had a tendency to be very good for OFDI. The final stage was set in motion by China’s central government’s formal announcement of the Going Out strategy. In 2000,

³¹⁵ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 9, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf

³¹⁶ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 10, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf

³¹⁷ Huang Wenbin, and Andreas Wilkes, “Analysis of China’s Overseas Investment Policies” (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 10, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf

when the Going Out strategy was announced, there was a higher frequency of OFDI related policies issued—an increase of greater than 15 a year since 2002.³¹⁸ The aim of most of these policies was to encourage overseas investment. Their implementation were important in stimulating the more recent Chinese investment overseas and OFDI flows increased substantially during this period, an increase of more than 2000 percent, from U.S. \$2.5 billion to U.S. \$56.5 billion.³¹⁹

B. CHINESE FOREIGN INVESTMENT

Having given a brief historical background on China's relations with the developing world beginning with the cold war, then having detailed the OFDI policy development in China, in order to understand why Ecuador and Mexico received Chinese investment while Colombia did not, this section motivates the thesis by overviewing how Chinese companies invest overseas as a result of the policy development of Chinese OFDI and foreign investing environments.

During the initial development of Chinese foreign investment, the Chinese government encouraged large SOEs to venture abroad to develop their operations internationally, while strictly restricting the investment of private companies.³²⁰ Private companies were lacking experience in international business,³²¹ and most of them did not have any distinct competitive advantages over foreign competitors and usually faced more obstacles than SOEs.³²² For example, in contrast to the experience of SOEs,

³¹⁸ Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 1, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf

³¹⁹ Huang Wenbin, and Andreas Wilkes, "Analysis of China's Overseas Investment Policies" (working paper 79, Center for International Forestry Research, Bogor, Indonesia, 2011), 1, http://www.cifor.org/publications/pdf_files/WPapers/WP-79CIFOR.pdf

³²⁰ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 68.

³²¹ They lacked international experience because they were never previously permitted to venture abroad.

³²² Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 69.

Chinese private companies were not offered support from the Chinese government in the form of information, legal assistance, or consulting support.³²³

The turning point in Chinese OFDI policy development was during the 1990s when the Chinese government began supporting Chinese private companies investing overseas. As discussed in the section on Chinese OFDI policy development, we know that as a part of China's economic opening, in the 1990s China promoted international trade and cooperation through reforms in the system that encouraged private investment overseas and unambiguously legalized the role of private investors overseas. As such, for the first time in the initial reform of the approval system of foreign exchange management, private companies were actually treated the same as SOEs.

Recapping discussion from the stages of China's OFDI policy development, however, there were many conditions making it more difficult for private Chinese companies to invest overseas, especially Chinese companies that were small or medium in size. In particular, compared to SOEs, private Chinese companies ran into extensive administrative difficulties in building international endeavors to include the intricacy and strictness of the approval process.³²⁴ In order to operate internationally, frequently these companies looked for shelter under the cover of an SOE and were obligated to pay a fee in return.³²⁵ Most private companies continued to use a foreign trade agency—a liaison that connects a company to a distributor or end user in a foreign country—resulting in a higher cost of business as well as a higher risk of business secrets being leaked.³²⁶

Financial support was also lacking. Typically import and export banks were important in financing OFDI. However, some bank loan policies, like those of China Eximbank, were geared toward financing large companies with notable reputations,

³²³ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 69.

³²⁴ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 69.

³²⁵ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 69.

³²⁶ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 69.

essentially ignoring small to medium sized enterprises (SMEs).³²⁷ Lastly, SMEs typically did not have information about foreign markets and foreign investment opportunities, a further impediment to investing overseas.³²⁸

In order to cope with the still harsh investing environment, it was common for Chinese private companies to follow one or more of four common processes when investing overseas. One process included exporting to a particular market prior to investing in that location, which allowed the company to analyze the unfamiliar market and business setting, to gain experience, to raise financial resources and then decide whether to invest and settle locally.³²⁹ Another process involved the company entering the unfamiliar market as a joint-venture initially, and then seeking 100 percent ownership and control of a company.³³⁰ This process of overseas investment allowed the company to first learn how business is done locally, then take over full control of the venture, and maybe even expand in the local market.³³¹ A third process used was to begin with a labor-intensive product before transitioning to a technology-intensive product. With this process the company first built the production capability in China, taking advantage of their low labor cost. Then, after raising capital and developing competitive advantages, the company went abroad to sell more technology-intensive products.³³² Finally, a fourth process commonly used is investing first in emerging markets before investing in economies already developed. Because of lower risk of failure and lower management

³²⁷ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 69.

³²⁸ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 69.

³²⁹ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 69.

³³⁰ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 69.

³³¹ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 69.

³³² Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 69.

costs Chinese companies have used comparatively less developed markets in Asia, Latin America, and Africa as a test bed before moving to other, more developed economies.³³³

C. CONCLUSION

This chapter focused on the development of Chinese investment overseas, important to determining if this development is in alignment with the methods through which Ecuador, Mexico, and Colombia opened to investment consequently opening them to the potential for China to invest in these countries' ports. The first subsection gave a brief history of China's relations with the rest of the world beginning with the cold war. Next, the second subsection began with an introduction of important actors in Chinese foreign investment policy development. MOFCOM and SAFE were the most important agencies to the development of Chinese overseas investment policy having produced more than 50 percent of related policies.

We also see that the State Council had a substantial influence on OFDI policy despite producing less than six percent of the actual policy. The process required to obtain approval for investing overseas involved several institutions with the key players being the State Council, MOFCOM, SAFE and the NDRC. Despite numerous modifications and changes during the 30 years of opening up, the basic steps and actors remain the same.³³⁴ The company wanting to invest overseas first applied to SAFE to obtain permission to use foreign exchange revenue overseas. Once the financial aspect was approved, the company then applied either to MOFCOM or to the NDRC to obtain approval for the business project aspect of the venture overseas.³³⁵

In the fourth subsection we see the complexity of the development of Chinese OFDI policy, which can be described in three stages. In the initial stage, policy dictated

³³³ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 69.

³³⁴ Hinrich Voss, Peter J. Buckley, and Adam R. Cross, "Thirty Years of Chinese Outward Foreign Direct Investment," in *19th CEA UK Conference: China's Three Decades of Economic Reform (1978–2008)* (Cambridge, UK: Cambridge University, 2008), 5.

³³⁵ Hinrich Voss, Peter J. Buckley, and Adam R. Cross, "Thirty Years of Chinese Outward Foreign Direct Investment," in *19th CEA UK Conference: China's Three Decades of Economic Reform (1978–2008)* (Cambridge University, Cambridge UK, April 2008), 5.

that only SOEs were allowed to invest abroad. In the second stage came looser policy restrictions which allowed Chinese OFDI growth to include the allowance of private Chinese companies to engage in overseas investment. And finally the last stage was characterized with active promotion of Chinese OFDI resulting in the rapid expansion of Chinese OFDI. Despite the gradual loosening of restrictions on overseas investment, due to the complexity of the development of Chinese OFDI bureaucracy in getting approval for OFDI ironically served to hinder the same development it was designed to encourage.

Finally, section two lays out how Chinese companies invest overseas as a result of the constraints of Chinese OFDI policy encountered by the companies facing foreign markets for the first time. A recap of four processes Chinese private companies use when investing overseas to endure the highly regulated, potentially unfamiliar investing environment follows: 1) exporting first to an unfamiliar market in order to garner knowledge of the setting and raise capital while determining suitability of investing directly at that location; 2) enter the unfamiliar market in a JV then as familiarity is gained move toward 100 percent ownership and control of the JV; 3) produce a labor-intensive product domestically to raise capital and develop competitive advantages before investing overseas to sell a more technologically advanced products; and finally 4) investing in a new market as a test bed before investing in developed markets.³³⁶

Chapter V will re-examine the hypothesis previously introduced to discuss why the hypothesis is valid in explaining Chinese investment in the Latin American ports in Mexico and Ecuador, and an absence of Chinese investment in Colombian ports in the 1990s. The hypothesis is if the way Latin American countries opened their ports to investment aligns with how Chinese overseas investment developed you will have Chinese investment in their respective ports in the early 2000s. To do this, chapter V will give an overview of the two Chinese port management companies in focus for this thesis, COSCO Pacific and HPH. Then there is a history of these companies to include their OFDI activities and finally their OFDI activities in my case countries. The final section will draw out similarities and differences in how Ecuador, Mexico and Colombia opened

³³⁶ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 69.

to foreign investment as compared particularly to methods Chinese companies used to invest overseas to show why we find Chinese foreign investment in the 2000s in Mexico and in Ecuador, but not in Colombia.

V. THE ALIGNMENT OF LATIN AMERICAN PORTS OPENING TO FOREIGN INVESTMENT AND FOREIGN INVESTMENT FROM CHINESE PORT MANAGEMENT COMPANIES

Having Chinese investment in a Latin American port depends on the Latin American port being open to how the Chinese company invests overseas. In other words, how a Latin American country opens to foreign investment will either align with how the Chinese company invests, in which case you will have Chinese investment in the Latin American Port, or it will not align, in which case you will not have Chinese investment in the Latin American Port. Chapter III covered the process by which port privatization occurred in Ecuador, Mexico and Colombia. Chapter IV demonstrated the importance of the development of China's OFDI policy in directly influencing the coping mechanisms used by Chinese companies investing overseas entering foreign markets. Knowing the mechanisms used by Chinese companies to invest overseas leads us into the demonstration of Chinese port management companies using these mechanisms in their OFDI, specifically in the ports in Latin America, which will be covered in this chapter.

Chapter V will show that the ports in Ecuador and Mexico opened to foreign investment in a way that aligned with how HPH invested overseas resulting in HPH investing in Ecuadorian and Mexican ports. It will also show that the way that Colombia opened its ports to foreign investment did not align with how HPH and COSCO invested in ports overseas; therefore there is no Chinese investment in Colombian ports. The chapter begins with an overview of the Chinese port management companies in focus: COSCO and HPH. The overview will include a background on the companies and continue with their respective OFDI activity.

The second section outlines COSCO and HPHs investment activities in Ecuadorian and Mexican ports in the early 2000s. The chapter and thesis will conclude by showing how Chinese port investment companies followed common overseas investment practices while investing in the ports in Ecuador and Mexico. Comparing and contrasting Ecuadorian, Mexican and Colombian reception of foreign and private

investment in relation to how China invested overseas during the early 2000s will show whether these countries' ports would align in their reception of Chinese investment or not align.

A. CHINESE PORT MANAGEMENT COMPANIES

HPH and COSCO Pacific are the two Chinese port investment companies in focus for this thesis due to their significant overseas direct investment in foreign ports. The following section will give an overview of each company and then will detail each company's progression from its initial emergence into port management to how each company made the move to investing overseas. This will set us up for the conclusion which explains the lack of investment by COSCO in Ecuador, Mexico and Colombia and it explains the investment of HPH in Ecuador and Mexico but not in Colombia.

The origin of a port management company influences the goals of the company, as discussed in the private port management section of chapter II. Understanding the origins of a port management company will give us insight into the goals of the company and subsequently what motivates the company. Understanding the environment the company is operating in, discussed in the Chinese foreign investment section in chapter IV, and business strategy of a company will help us understand decisions made by the company and for the purpose of this thesis, the choice of location of investment in port terminals. The next subsection details COSCO Pacific and HPH background first then covers each company's overseas foreign investment.

B. COSCO PACIFIC BACKGROUND

China Ocean Shipping (Group) Company (COSCO)—owned by the People's Republic of China—was established in 1961 engaging in transportation solutions. It became a shipping company in 1993.³³⁷ It is currently the second largest integrated

³³⁷ "Company Profiles." *Israel Shipping Report* 2, no. 2 (April 2010): 59; "China COSCO Holdings Company Limited," COSCO in Asia, Global Network, Business Areas, COSCO Group, accessed November 8, 2014, http://en.cosco.com/art/2013/1/31/art_793_49.html

shipping company in the world.³³⁸ China COSCO Holdings (China COSCO) was established in March 2005 and is a subsidiary of COSCO. China COSCO's subsidiaries provide a myriad of services spanning the entire shipping logistics chain both internationally and domestically including shipping and leasing of terminals and containers.³³⁹ See Figure 7 for organizational structure of China COSCO and its subsidiaries. China COSCO specifically manages its terminal and port services through COSCO Pacific.³⁴⁰



Figure 7. China COSCO's Organizational Structure³⁴¹

COSCO Pacific is considered China's largest terminal manager and operates terminals at the Chinese ports of Dalian, Yingkou, Tianjin, Qingdao, Shanghai, Taicang,

³³⁸ COSCO has a strong presence in all major cargo shipping sectors including container shipping, dry bulk and liquid bulk, as well as terminal and logistics operations and shipbuilding. "Company Profiles," *Israel Shipping Report 2*, no. 2 (April 2010): 59.

³³⁹ "China COSCO Holdings Company Limited," COSCO in Asia, Global Network, Business Areas, COSCO Group, accessed November 8, 2014, http://en.cosco.com/art/2013/1/31/art_793_49.html

³⁴⁰ COSCO Pacific is listed on the Hong Kong stock exchange and it owns approximately 42.71 percent equity interests. "Terminals," Business, China COSCO Holdings Company Limited, accessed November 8, 2014, <http://en.chinacosco.com/col/col1085/index.html>; "Company Profiles," *Israel Shipping Report 2*, no. 2 (April 2010): 40–91, 59.³⁴¹ "Business Structure," Corporate Profile, China COSCO Holdings Limited, accessed November 8, 2014, <http://en.chinacosco.com/col/col1057/index.html>.

³⁴¹ "Business Structure," Corporate Profile, China COSCO Holdings Limited, accessed November 8, 2014, <http://en.chinacosco.com/col/col1057/index.html>.

Zhangjiangang, Nanjing, Yangzhou, Ningbo, Xiamen, Quanzhou, Shenzhen, Guangzhou and Hong Kong.³⁴² In addition COSCO Pacific, considered one of the top terminal managers in the world, managed terminals in major ports in Belgium, France, the Netherlands, Italy, Singapore and Egypt in 2010.³⁴³ Considering that COSCO Pacific's operations began in China and a significant portion of their operations are in China their operations domestically are important to mention for reference for further discussion of COSCO Pacific's port operations and port choice though the discussion will focus on their operations overseas. See Table 6 for a summary of COSCO Pacific's domestic operations and overseas operations.

Table 6. COSCO Pacific's Terminal Companies, Domestic and Overseas³⁴⁴

Terminal Companies	Shareholding
Bohai Rim	
Qingdao Qianwan Container Terminal Company Limited	20%
Qingdao New Qianwan Container Terminal Company Limited	16%
Qingdao Qianwan United Container Terminal Company Limited	8%
Qingdao Qianwan United Advance Container Terminal Company Limited	5.6%
Dalian Port Container Terminal Company Limited	20%
Dalian Automobile Terminal Company Limited	30%
Tianjin Port Euroasia International Container Terminal Company Limited	30%
Tianjin Five Continents International Container Terminal Company Limited	14%
Yingkou Container Terminals Company Limited	50%
Yangtze River Delta	
Shanghai Pudong International Container Terminals Limited	30%
Shanghai Xiangdong International Container Terminal Company Limited	10%
Ningbo Yuan Dong Terminals Limited	20%
Zhangjiagang Win Hanverky Container Terminal Company Limited	51%
Yangzhou Yuanyang International Ports Company Limited	55.59%
Nanjing Port Longtan Container Company Limited	20%

³⁴² "Company Profiles." *Israel Shipping Report 2*, no. 2 (April 2010): 60–61.

³⁴³ "Company Profiles." *Israel Shipping Report 2*, no. 2 (April 2010): 60–61.

³⁴⁴ "Terminal Operations," China Ocean Shipping Company Pacific, accessed October 27, 2014, http://www.coscopac.com.hk/en/business.php?class_id=20

Terminal Companies	Shareholding
Pearl River Delta and South East Coast	
COSCO-HIT Terminals (Hong Kong) Limited	50%
Yantian International Container Terminals Limited	14.59%
Yantian International Container Terminals (Phase III) Limited	13.36%
Guangzhou South China Oceangate Container Terminal Company Limited	39%
Quan Zhou Pacific Container Terminal Company Limited	71.43%
Jinjiang Pacific Ports Development Company Limited	80%
Xiamen Yuanhai Container Terminal Company Limited	70%
Overseas	
Piraeus Container Terminal S.A.	100%
Suez Canal Container Terminal S.A.E.	20%
COSCO-PSA Terminal Private Limited	49%
Antwerp Gateway NV	20%

C. COSCO PACIFIC OFDI

COSCO Pacific began its overseas operations when it entered a JV with PSA Corporation Limited. The JV formed is the COSCO-PSA Terminal Private Ltd (CPT.) in which COSCO Pacific had a 49 percent stake.³⁴⁵ It was formed to jointly manage and operate two berths at Pasir Panjang Terminal in Singapore commencing on November 1, 2003.³⁴⁶ CPT was also responsible for the construction and operation of two additional terminals. By 2008, the two new terminals built by CPT were not only operational, but were cohesive and integrated with the rest of PSA operations through shared advanced technology.³⁴⁷ COSCO Pacific went on to set up operations in Egypt (2004) with a 20

³⁴⁵ “Joint-Venture Terminals,” Terminals, Our Business, PSA Singapore Terminals, accessed November 8, 2014, <https://www.singaporepsa.com/our-business/terminals/joint-venture-terminals> “Signing Head of Agreements to Establish COSCO-PSA Terminal Private Limited,” Press Releases, Media Center, COSCO Pacific Limited, August 30, 2003, <http://www.coscopac.com.hk/eng/media/p030830.php>

³⁴⁶ “Inauguration of COSCO-PSA Terminal Pte. Ltd.” Press Releases, Media Center, COSCO Pacific Limited, December 2, 2003, <http://www.coscopac.com.hk/eng/media/p031202.php>

³⁴⁷ “Joint-Venture Terminals,” Terminals, Our Business, PSA Singapore Terminals, accessed November 8, 2014, <https://www.singaporepsa.com/our-business/terminals/joint-venture-terminals> “Signing Head of Agreements to Establish COSCO-PSA Terminal Private Limited,” Press Releases, Media Center, COSCO Pacific Limited, August 30, 2003, <http://www.coscopac.com.hk/eng/media/p030830.php>

percent stake, in Belgium (2004) with a 20 percent stake and in Greece (2008) as a wholly-owned subsidiary (See table 7.)

The new overseas operations in the form of three new JVs and one new WO subsidiary benefited COSCO in many ways. Relevant to this thesis these newly established operations served COSCO Container Lines Company Limited (COSCON), a sister company to COSCO Pacific—through the provision of exclusive and quality services at the terminals managed by COSCO Pacific according to COSCO’s press release concerning the new terminal management.³⁴⁸

Table 7. Timeline COSCO Pacific Major Milestones³⁴⁹

2003	First Overseas JV to operate COSCO-PSA Terminal Private Limited COSCO-49% interest
2004	JV to operate SCCT, Egypt COSCO APM-55% COSCP Pacific-20% Suez Canal Authority & Affiliates-10.3% National Bank of Egypt-5% Egyptian Private Sector-9.7%
2004	JV to develop and operate Antwerp Gateway terminal, Belgium DP World-42.5%, Zim Ports-20%, Cosco Pacific-20%, Terminal Link/CMA-CGM-10%-and Duisport-7.5%
2005	Antwerp Gateway Terminal Opens
2008	Piraeus Container Terminal SA wholly-owned subsidiary of COSCO Pacific Limited

³⁴⁸ “Signing Head of Agreements to Establish COSCO-PSA Terminal Private Limited,” Press Releases, Media Center, COSCO Pacific Limited, August 30, 2003, <http://www.coscopac.com.hk/eng/media/p030830.php>

³⁴⁹ “Capt. Wei Attended the Opening Ceremony of Pier 3 of Port Piraeus, and Greek Prime Minister Addressed the Occasion,” Company News, Media Center, COSCO Pacific Limited, June, 27, 2013, http://www.coscopac.com.hk/en/news.php?action=content&class_id=16&id=344; “Inauguration of COSCO-PSA Terminal Pte. Ltd.” Press Releases, Media Center, COSCO Pacific Limited, December 2, 2003, <http://www.coscopac.com.hk/eng/media/p031202.php>; “What Do You Know About SCCT?” General Information, About Us, Suez Canal Container Terminal, accessed November 8, 2014, http://www.scct.com.eg/general_info.php; “Shareholders,” About Us, Suez Container Terminal, November 8, 2014, <http://www.scct.com.eg/shareholders.php>; “Pacific Maritime Services, LLC.” COSCO Terminal, Terminal Operations, Business Areas, COSCO Americas, Inc, accessed November 8, 2014, <http://www.coscoamericas.com/contents/157/220.html>; “History,” Company, SSA Marine, accessed November 8, 2014, <http://www.ssamarine.com/company/history.html>.

1. No COSCO Pacific Investment in Latin America

COSCO Pacific used all four coping mechanisms for investing overseas, discussed in chapter IV. First, COSCO Pacific typically entered a JV when managing a new terminal overseas, as was laid out earlier in this chapter. Above we see that three out of four of COSCO Pacific's overseas operations were through a JV.³⁵⁰ Second, COSCO Pacific built its terminal/port management capabilities within China before looking to expand overseas, also discussed earlier, allowing COSCO Pacific to gain experience and knowhow and improve procedures and technology, then put that experience and knowhow and the improvements into practice beginning with CPT. Third, COSCO Pacific also—technically—followed the process of investing first in an emerging market (China) before investing in already developed markets (Singapore, Greece, Egypt Belgium).³⁵¹ Finally, COSCO Pacific invested in four ports along its sibling company, COSCON's, established trade route in Singapore, Belgium, Egypt and Greece. This behavior is last coping mechanism—to export first to an unfamiliar market, and then expand there once knowledge of the local market and customs has been acquired.

COSCO Pacific's methods for choosing ports to invest in did not align with investing in any Latin American ports in the 2000s due to one of the coping mechanisms used by COSCO Pacific in investing overseas.³⁵² In analyzing the coping mechanisms used, the first three coping mechanisms described above would align with COSCO Pacific investing in Ecuador, Mexico and Colombia. It is the fourth mechanism discussed here that does not align. Because COSCO Pacific has followed the behavior expected of an ocean carrier terminal/port management company, discussed in the chapter III, since COSCON does not have major established trade routes in Ecuador, Mexico and Colombia, we also do not see COSCO Pacific investment in these countries. See Table 7

³⁵⁰ COSCO Pacific's fourth overseas operation in Piraeus was not a joint venture, but was instead a wholly-owned subsidiary.

³⁵¹ Though the COSCON portion of the COSCO business would not qualify as Chinese shipping as an emerging market, the developing need for private port investors/operators would qualify the ports and their operations as in a new market.

³⁵² By the mid-late 2000s COSCO Pacific does not nearly have the extensive investment operations overseas that HPH did.

for container terminals under the responsibility of COSCO Pacific and Table 8 for established trade routes of COSCON and Appendix A for examples of COSCON routes.

Table 8. COSCON Major Route Services³⁵³

Asia-America Services	Asia-Europe Services	Asia-S. Africa/S. Americas Services
All Water/US E. Coast Express 1	Aegean Sea Direct Express	Asia/S. Africa/S. America
All Water/US E. Coast Express 2	Asia/Europe Weekly Express 2	Far East/Africa Express
All Water/US E. Coast Express 3	Asia/Europe Weekly Express 3	
All Water/US E. Coast Express 4	Asia/Europe Weekly	
E. China/US S.W. Coast Express	Asia N.W. Europe Weekly	
N. China/US S.W. Coast Express	Adriatic Feeder	
China/Central America Express	Asia Med Express	
Taiwan/Korea/US S.W. Coast Express	Asia Med Pacific Service	
Japan/U.S/ NW Coast Express	Asian Mediterranean Service	
Japan/Pacific S.W. Coast	China N. Europe Express	
S.E. Asia/US S.W. Coast Express	E. Med Express	
S. China/US N.W. Coast Express	Med/W. Africa	
N.+E. China/US N.W. Coast Express	Asia/Europe Services	
Pacific S.W. Coast/Asia		
Shanghai/Ningbo/Pacific S.W. Coast		
S. China/US S.W. Coast Express		
Taiwan/US N.W. Coast Express		
Taiwan/Pacific S.W. Coast Service		

³⁵³ “Asia—America Services,” Service Map, Our Service, COSCO Container Lines Company Limited, accessed November 8, 2014, <http://www.coscon.com/ourservice/service.do?f=ASIAAME&locale=en>; “Asia—Europe Services,” Service Map, Our Service, COSCO Container Lines Company, Limited, accessed November 8, 2014, <http://www.coscon.com/ourservice/service.do?f=ASIAEUR>; “Asia—S. Africa/S. America Services,” Service Map, Our Service, COSCO Container Lines, accessed November 8, 2014, <http://www.coscon.com/ourservice/service.do?f=AFRICA&locale=zh>.

D. HPH—BACKGROUND

The origins of the Hutchison Port Holdings date back to 1866 when the Hongkong and Whampoa Dock Company was established for the provision of services in ship construction and repair.³⁵⁴ Over the next 100 years, Hongkong and Whampoa Dock Company expanded into cargo and container-handling operations and international port services.³⁵⁵ In 1969 Hongkong and Whampoa Dock Company established HPH to manage the newly established Hongkong International Terminals (HIT)—a single container terminal in Hong Kong.³⁵⁶ Hutchison Whampoa Limited (HWL) is established in 1977, as a result of a merger between Hutchison International Limited and Hongkong and Whampoa Dock Company Limited. In 1979 Li Ka-shing's Cheung Kong Holdings took over HWL. The HWL Group—with interests in countries throughout Asia, the Middle East, Africa, Europe, America, and Australia—then formed Hutchison Port Holdings (HPH) in 1994 to “hold and manage the port and related interests of the diversified Hutchison Whampoa Limited Group.”³⁵⁷ See Table 9 for HPH milestones.

E. HPH—OFDI

HWL's first investment project outside of Hong Kong was overseas is Felixstowe, United Kingdom (UK.) In August of 1991 the Hutchison Whampoa Group acquired 75 percent of the port in Felixstowe (Trinity Terminal) with the remaining 25 percent (Walton Container Terminal) belonging to Orient Overseas Holdings Limited (OOHL).³⁵⁸ In 1993 HWL began improving the terminal with the dredging of the main

³⁵⁴ Linda TjiaYin Nor, “Hong Kong's Role in Mainland China's Logistics Industry,” *Asian Survey* 51, no. 4 (July/August 2011): 666, <http://www.jstor.org/stable/10.1525/as.2011.51.4.659>.

³⁵⁵ Linda TjiaYin Nor, “Hong Kong's Role in Mainland China's Logistics Industry,” *Asian Survey* 51, no. 4 (July/August 2011): 666, <http://www.jstor.org/stable/10.1525/as.2011.51.4.659>.

³⁵⁶ Katta G. Murty, Yat-wah Wan, Jiyang Liu, Mitchell M. Tseng, Edmund Leung, Kam-Keun Lai, W.C. Chiu, “Hong Kong International Terminals Gains Elastic Capacity using a Data-intensive Decision-Support System,” *Interfaces* 35, no. 1 (2005) 61; Linda TjiaYin Nor, “Hong Kong's Role in Mainland China's Logistics Industry,” *Asian Survey* 51, no. 4 (July/August 2011): 666, <http://www.jstor.org/stable/10.1525/as.2011.51.4.659>.

³⁵⁷ “Milestones,” Hutchison Port Holdings, accessed June 25, 2014, <http://www.hph.com/about/milestone.aspx>.

³⁵⁸ “Milestones,” Hutchison Port Holdings, accessed June 25, 2014, <http://www.hph.com/about/milestone.aspx>; “History,” Company Information, Port of Felixstowe, accessed October 26, 2014; <http://www.portoffelixstowe.co.uk/company-information/history/>.

channel to deepen the channel to at least a depth of 12.5 meters and the addition of one million square feet of warehousing to the port through the completion of the construction of a warehouse.³⁵⁹

The following year HWL bought the remaining 25 percent of the port from OOHHL to give HWL 100 percent ownership of the port.³⁶⁰ The port expansion project began to add 630 meters to the Trinity Terminal.³⁶¹ The roadway connecting the port entrance to the main highways nearby was completed and opened. Additional cranes were added giving the port the additional capability to service wider container ships.³⁶² By 1996 the Trinity Terminal expansion was completed and opened.³⁶³

³⁵⁹ “Milestones,” Hutchison Port Holdings, accessed June 25, 2014, <http://www.hph.com/about/milestone.aspx>; “History,” Company Information, Port of Felixstowe, accessed October 26, 2014 <http://www.portoffelixstowe.co.uk/company-information/history/>.

³⁶⁰ “Milestones,” Hutchison Port Holdings, accessed June 25, 2014, <http://www.hph.com/about/milestone.aspx>; “History,” Company Information, Port of Felixstowe, accessed October 26, 2014 <http://www.portoffelixstowe.co.uk/company-information/history/>.

³⁶¹ “Milestones,” Hutchison Port Holdings, accessed June 25, 2014, <http://www.hph.com/about/milestone.aspx>; “History,” Company Information, Port of Felixstowe, accessed October 26, 2014, <http://www.portoffelixstowe.co.uk/company-information/history/>.

³⁶² “Milestones,” Hutchison Port Holdings, accessed June 25, 2014 <http://www.hph.com/about/milestone.aspx>; “History,” Company Information, Port of Felixstowe, accessed October 26, 2014, <http://www.portoffelixstowe.co.uk/company-information/history/>.

³⁶³ “Milestones,” Hutchison Port Holdings, accessed June 25, 2014, <http://www.hph.com/about/milestone.aspx>; “History,” Company Information, Port of Felixstowe, accessed October 26, 2014, <http://www.portoffelixstowe.co.uk/company-information/history/>.

Table 9. Timeline Hutchison Port Holdings Major Milestones³⁶⁴

Year	Milestone
1866	Hongkong and Whampoa Dock Company founded as a British hong
1971	Hutchison International Terminals established and begins operation at Kwai Chung in 1976
1977	Merger between Hutchison International Limited and Hongkong and Whampoa Dock Company Limited to form Hutchison Whampoa Limited
1979	Takeover of HWL by Li Ka-shing's Cheung Kong Holdings
1991	Internationalization begins: first overseas terminal project in Felixstowe
1991/2	Hutchison Westports Limited Established
1993	First terminal project in mainland China 50/50 JV with Shanghai Intl Port Group
1994	HPH established to oversee all HWL's port business JV with Yantian Port Group to operate the Yantian International Container Terminal. Hutchisons DeltaPorts established as one of HPH's leading subsidiary
1994	HPH acquired a stake in Mid-Stream Holdings.
1994	JV to operate Shantou International Container Terminals
1995	JV to operate Jiangmen International Container Terminals JV with Bahamian authorities created the Freeport Harbour Company.
1996	HPH to operate the Ports of Cristobal and Balboa in Panama HPH 90% ownership HPH acquired a stake in Myanmar International Terminals Thilawa.
1997	Freeport Harbour Company opens new Freeport Container Port
1998	Hutchison acquired Thamesport on the Isle of Grain, and Harwich International Port
1999	JV to operate Jakarta International Container Terminals in Indonesia. HPH acquired a stake in European Container Terminals.

³⁶⁴ Daniel Olivier, Francesco Parola, Brian Slack and James J. Wang, "The Time Scale of Internationalisation: The Case of the Container Port Industry," *Maritime Economics & Logistics* 9 (2007): 19; "Milestones," Hutchison Port Holdings, accessed June 25, 2014 <http://www.hph.com/about/milestone.aspx>; "Baltic Swap," *Dredging and Port Construction* (May 2005): 12; "Growth in the Far East," *Dredging and Port Construction* (November 2004): 10; "Hutchison Gets Nod on Felixstowe Projects," *The Journal of Commerce* (February 6, 2006), 9; Shelley Emling, "Bahama Time," *Latin Trade (English)* 6, no. 11 (November 1998): 28; John Collins, "Hutchison Open for Business in Freeport," *Caribbean Business* 29, no. 35 (August 2001): 47; "Hutchison Plans Panama Expansion," *The Journal of Commerce* (September 2005): 9; "History," Corporate Information, BACTSSA, Buenos Aires Container Terminal Services, accessed November 7, 2014, <http://www.bactssa.com.ar/en/>.

Year	Milestone
2001	HPH to invest \$1 billion on Panama ports expansion during the next decade HPH acquires Buenos Aires Container Terminal SA, Argentina
2004	JV to build/operate Hutchison Laemchabang Terminal ³⁶⁵ with 30-year concession
2005	HPH acquired of a majority stake in Gdynia Container Terminal SA, Poland ³⁶⁶ JV to operation Alexandria International Container Terminals, Egypt JV to operate Oman International Container Terminal

HPH undertook its first investment in mainland China in 1993 with a JV between HPH and Shanghai International Port (Group) Company Limited. (SIPG.) The JV began as a 50/50 ownership of the Shanghai Container Terminal Company Limited—responsible for the operation and management of the container terminal in Shanghai.³⁶⁷ HPH formed a JV with the Yantian Port Group in 1994 to form the Yantian Port Holdings to jointly operate the Yantian International Container Terminal.³⁶⁸ HPH continued investing both in mainland China and outside of China. See Table 9 for a synopsis of the most important HPH investments through the mid-2000s.

1. HPH Investment in Latin America

From 2001 to 2006 HPH invested in the ports of in Ecuador, and terminals in Mexico (See Table 10.) HPH invested in the ports in varying ways detailed below in chronological order of when HPH invested in those ports.

³⁶⁵ Hutchison Laemchabang Terminal is a consortium of HPH, Hutchison Ports Thailand and Lexion Thailand.

³⁶⁶ The port was previously called Wonly Obszar Gospodarczy S.A.

³⁶⁷ Linda TjiaYin Nor, “Hong Kong’s Role in Mainland China’s Logistics Industry,” *Asian Survey* 51, no. 4 (July/August 2011): 666, <http://www.jstor.org/stable/10.1525/as.2011.51.4.659>; James J. Wang, Adolf Koi-Yu Ng, and Daniel Olivier, “Port Governance in China: a Review of Policies in an Era of Internationalizing Port Management Practices,” *Transport Policy* 11, no. 3 (2004): 241; “Growth in the Far East,” *Dredging and Port Construction* (November 2004): 10.

³⁶⁸ Linda TjiaYin Nor, “Hong Kong’s Role in Mainland China’s Logistics Industry,” *Asian Survey* 51, no. 4 (July/August 2011): 666, <http://www.jstor.org/stable/10.1525/as.2011.51.4.659>.

Table 10. Chinese Investment in Case Country Ports

<u>Joint Venture/Terminal</u>	<u>CH Partner/Year</u>	<u>Share of CH Investment</u>
Terminal Internaional de Manzanillo (TIM)	HPH/2001	W-O subsidiary
Internacional de Contenedores Asociados de Veracruz (ICAVE)		W-O subsidiary
Ensenada International Terminal & Ensenada Cruiseport Village		W-O subsidiary
Lázaro Cárdenas Terminal Portuaria de Contenedores (LCT)	HPH/2003	51%
Port of Manta	HPH/2006	W-O subsidiary

a. Mexico

The privatization push in Mexican ports discussed in chapter III continued to draw the interest of a great deal of foreign investment.³⁶⁹ Port development and expansion in four major ports in Mexico was undertaken by HPH in 2001, when HPH acquired several terminals from the Philippines based International Container Terminal Services Incorporated, giving it control of container terminal concessions in Ensenada International Terminal SA de CV and Ensenada Cruiseport Village SA de CV at the Port of Ensenada in Mexico; Internacional de Contenedores de Asociados de Veracruz SA de CV at the Port of Veracruz in Mexico; Terminal International de Manzanillo SA de CV at the Port of Manzanillo in Mexico (See figure 8 for port locations.)³⁷⁰ HPH's Group Managing Director, John Meridith, indicated this acquisition of three additional ports helps establish HPH in "highly attractive markets...in which previously we have not been involved." He also stated the intention of HPH to "build on and expand" the successes of these ports.³⁷¹

³⁶⁹ Susan Kreimer, "Arriba! Mexican Ports Enjoy An Infusion of Investment That Should Ensure Rapid Growth," *Journal of Commerce* no. 38: (2003): 83.

³⁷⁰ Susan Kreimer, "Arriba! Mexican Ports Enjoy An Infusion of Investment That Should Ensure Rapid Growth," *Journal of Commerce* no. 38: (2003): 83. HPH also acquired port operations and investments in , Argentina, Saudi Arabia, Pakistan, Tanzania and Thailand through this acquisition.

³⁷¹ "Hutchison Port Holdings Acquires Overseas Assets of International Container Terminal Services, Inc.," Press Releases, Hutchison Port Holdings, May 28, 2001, http://hph.com/media/press_release.aspx.



Figure 8. HPH Locations in Mexico³⁷²

Additionally, beginning in 2003, HPH bid and won the concession to operate and develop the LCT of which it holds a 51 percent stake.³⁷³ The concession gave HPH through the LCT the rights to expand the terminal through the development of a previously undeveloped 85-hectare deep-water site.³⁷⁴ Referencing the acquisition, HPH's Group Managing Director also stated "with transfer of HPH's management expertise and advanced systems," HPH's goal is to transform LCT into a "world-class facility."³⁷⁵

In 2006, HPH Port Holdings began the expansion of the port's specialized container terminal to be completed in 2007 as the first phase of a \$200 million investment

³⁷² "Introduction," *Internacional de Contenedores Asociados de Veracruz, Americas*, Hutchison Port Holdings Limited, accessed November 8, 2014, <http://hph.com/globalbusiness/business.aspx?gid=52>.

³⁷³ Susan Kreimer, "Arriba! Mexican Ports Enjoy An Infusion of Investment That Should Ensure Rapid Growth," *Journal of Commerce* no. 38: (2003): 86.

³⁷⁴ "HPH Launches New US \$244 Million Facility at Port of Lazaro Cardenas, Mexico," Press Releases, Hutchison Port Holdings, accessed October 27, 2014, http://hph.com/media/press_release.aspx.

³⁷⁵ "HPH Launches New US \$244 Million Facility at Port of Lazaro Cardenas, Mexico," Press Releases, Hutchison Port Holdings, accessed October 27, 2014, http://hph.com/media/press_release.aspx.

by HPH at the LCT.³⁷⁶ In addition to the management and operations of the terminal, HPH undertook a container terminal development project to expand the port. Phase one of the expansion project had its grand opening in November 2007 (see Figure 9) with the remainder of the project to be completed the following year.³⁷⁷



Figure 9. Aerial view of LCT's new container handling facility³⁷⁸

HPH's group manager stated that with HPH reopening the LCT and modernizing it, HPH made the commitment to "transform and expand this terminal into a modern container-handling facility." With the completion of the expansion he states it had in fact been transformed into a "world-class container terminal which is outfitted with the latest handling equipment, capable of receiving the largest vessels afloat, with all of these port infrastructure developments, which are unprecedented in Mexico."³⁷⁹

³⁷⁶ "More Competition for US West Coast Ports." *Logistics Today* 47, no. 8 August 1, 2006, 12.

³⁷⁷ "HPH Launches New US \$244 Million Facility at Port of Lazaro Cardenas, Mexico," Press Releases, Hutchison Port Holdings, accessed October 27, 2014, http://hph.com/media/press_release.aspx.

³⁷⁸ "HPH Launches New US \$244 Million Facility at Port of Lazaro Cardenas, Mexico," Press Releases, Hutchison Port Holdings, accessed October 27, 2014, http://hph.com/media/press_release.aspx.

³⁷⁹ "HPH Launches New US \$244 Million Facility at Port of Lazaro Cardenas, Mexico," Press Releases, Hutchison Port Holdings, accessed October 27, 2014, http://hph.com/media/press_release.aspx.

b. Ecuador

In November 2006 HPH signed a 30 year concession with the Manta Port Authority (MPA) to build and operate a new U.S. \$523 million terminal at the Port of Manta. Out of the concession a new port operating company was formed; Terminales Internacionales de Ecuador SA (TIDE) is a wholly-owned subsidiary of HPH.³⁸⁰ TIDE is Ecuador's only natural deep-sea port and is capable of accommodating the next generation of mega-vessels.³⁸¹

Both HPH and MPA viewed the venture as beneficial. HPH from the perspective of working with MPA to develop the Port of Manta will enable HPH to participate in the increasing trade in the region. MPA pointed out the skills brought to the company from each entity: TIDE to be a collective of "local market knowledge" and HPH's "expertise in global port management and operations" to facilitate the Port of Manta's development into a leading port in the region.³⁸²

With the addition of TIDE, HPH's network of ports has increased to 44 worldwide.³⁸³

This next section will lay out the evidence of these Chinese port management companies following the processes suggested in chapter IV as how Chinese investment companies invest overseas which aligns.

³⁸⁰ "HPH Signs Port of Manta Concession," Press Release, Hutchison Port Holdings, accessed October 27, 2014, http://www.hutchison-whampoa.com/upload/en/media/press/1845_eng.pdf.

³⁸¹ "HPH Signs Port of Manta Concession," Press Release, Hutchison Port Holdings, accessed October 27, 2014, http://www.hutchison-whampoa.com/upload/en/media/press/1845_eng.pdf.

³⁸² "HPH Signs Port of Manta Concession," Press Release, Hutchison Port Holdings, accessed October 27, 2014, http://www.hutchison-whampoa.com/upload/en/media/press/1845_eng.pdf.

³⁸³ "HPH Signs Port of Manta Concession," Press Release, Hutchison Port Holdings, accessed October 27, 2014, http://www.hutchison-whampoa.com/upload/en/media/press/1845_eng.pdf.

VI. CONCLUSION

Addressing the subject of Chinese investment in Latin American ports, this thesis compared Ecuador, Mexico and Colombia, countries that have privatized their ports but that vary in terms of Chinese private and foreign investment in their ports. Chinese investment in and degree of trade with Latin American countries vary greatly by country, just as Chinese investment in Latin American ports does. A brief look at the cases demonstrates that Chinese investment in ports cannot be explained by Latin America's overall openness to FDI, openness to foreign investment in ports, and/or the degree to which a country receives Chinese FDI or engages in trade with China.

Ecuador (a slow, partial reformer) and Mexico (a radical economic liberalizer at the national level) are cases of considerable Chinese port investment. Ecuador stands out as a country that did not implement aggressive neoliberal reforms, but that did open to private, including foreign, investment. The discussion on Ecuadoran port investment earlier in this thesis demonstrates that Ecuador also opened itself to 100 percent foreign private investment and control in its ports.

Turning to Mexico, the country's trade with China increased substantially from 1998 and 2004, and by 2005 Mexico had become China's second largest bilateral trading partner, with bilateral trade continuing to increase through 2007.³⁸⁴ In this context, it is logical that Mexico's main ports on its Pacific coast were operated by the Chinese port management company HPH.³⁸⁵ However, HPH's investment in the east coast port, ICAVE, is curious, given that the control of Mexico's main port facilities along its Pacific coast facilitate easier and cheaper transportation of goods to and from China.

At a broader level Chinese investment in Mexican ports is interesting as well. Despite the growth in trade between the two countries, Mexico remains at a disadvantage,

³⁸⁴ Alejandro Kenny. "China's Presence in Latin America: A View on Security from the Southern Cone," *Military Review* 86, no. 5 (Sep, 2006): 61.

³⁸⁵ "Ports under Mexico," Hutchinson Port Holdings, accessed December 9, 2010, <http://www.hph.com/globalbusiness/ports.aspx?selgid=7#Section7>.

in that the imbalance of trade between the two countries is in favor of China.³⁸⁶ In recognizing the negative effects of competition with China, Mexican industry has advocated protection from the government against Chinese goods. Considering this, even though it is illogical, Mexico not only opened its ports to private foreign investment, it also opened its ports to 100 percent private foreign investment and control, without restriction to China, with the main stipulation being that the company be established in Mexico.³⁸⁷

Colombian ports had private investments, but none from China. In spite of considerable China-Colombia trade—in addition to recent efforts on the part of the Colombian government to attract more foreign investment³⁸⁸—none of these investors appear to be Chinese. While the earlier discussion of Colombian port investment explains that the restriction of Colombian port ownership and investment is limited to roughly a 70/30 split between the private and public sectors, further restrictions apply to foreign private investors. Foreign private investors are limited to only 30 percent ownership leaving a combined 70 percent of ownership open to domestic private investment and public ownership.³⁸⁹

While this restriction rules out investment from HPH in Colombia, the restriction would not rule out investment from COSCO Pacific, since COSCO Pacific entered two out of four foreign port JVs with only a 20 percent stake. However, the condition that is unfavorable to COSCO Pacific with regard to investment in the ports in Colombia is due to the type of port management company it is. Since COSCO Pacific is an ocean carrier type port management company it bases its investment activity largely on where

³⁸⁶ Robert Evan Ellis, *China in Latin America: the Whats and Wherefores* (Boulder, CO: Lynne Rienner Publishers, 2009), 200.

³⁸⁷ “General Information,” The Constitution of Integral Port Administrations, Port of Manzanillo, accessed December 9, 2010, <http://www.puertomanzanillo.com.mx/php/eng/seccion-01.php?eCodSeccion=20207>.

³⁸⁸ President Uribe (2002–2010) visited China in 2005 to promote investment from China. Alejandro Kenny. “China’s Presence in Latin America: A View on Security from the Southern Cone,” *Military Review* 86, no. 5 (September, 2006): 62.

³⁸⁹ Juan Gaviria, “Port Privatization and Competition in Colombia,” *Public Policy for the Public Sector*, Note No. 167 (December 1998): 1–2, accessed November 29, 2010, <http://cdi.mecon.gov.ar/biblio/docelec/bm/ppps/N167.pdf>.

COSCON has significant trade routes. Colombian ports are not a part of COSCON's significant trade routes; they are barely a part of their trade routes at all.

Drawing from the Chinese coping mechanisms for Chinese companies surviving in the harsh economic environment overseas as outlined under Chinese foreign investment in Chapter IV, Colombia would not provide the investment opportunity conducive to a Chinese company looking to eventually take full control of a port in Colombia since foreign private investment is limited by law to 30 percent. We see no apparent Chinese investment, even by a small private investor. On the other hand both Mexican and Ecuadoran ports would provide an investment environment conducive for a Chinese private company to enter into a joint-venture in the port sharing control of the port. Then, once the business was established and was experienced enough to do business successfully locally in Mexico or Ecuador, the Chinese company would have the option to acquire a larger stake in the port, with full control potentially. In gaining full control of the port the investor would be able to make the decisions to satisfy the objectives of the company—without having to take into consideration other stake holders—investing in projects of choice to increase their presence in the local market.³⁹⁰ This is what we expect from HPH or COSCO and have seen in their entrance into foreign markets earlier in this chapter.

There are a few exceptions to note specific to answering the questions of where a Chinese port investment company will invest. If Ecuadorian and Mexican ports provide a favorable environment for a Chinese port investor looking to invest overseas, then why do we not see COSCO investment in Mexico or Ecuador? To answer this question we have to look at the port investment strategies expected from the specific type of company that COSCO is.

³⁹⁰ Li Zhaoxi "China's Go Global Policy," in *Chinese Multinationals*, ed. Jean-Paul Larçon (Hackensack, NJ: World Scientific, 2009), 69. Due to the nature of port management if an entity is in control of the port management venture, it's in essence in control of the whole port. There are exceptions. A country's government could decide that the foreign entity is a risk to its sovereignty or not fulfilling its contract and remove the foreign entity, but for the most part, the foreign entity is left to run the port as it sees fit for business.

In chapter II port management companies were defined by their method of entry into the port management market. We described HPH as a “pure” port management company and we described COSCO as an ocean carrier port management company. COSCO Pacific has not invested in Ecuadorian or Mexican ports because COSCON does not have a main trade route using any of the ports in Mexico nor Ecuador. Instead, COSCO Pacific has ports in Panama which serve the main COSCON routes than run from East Asia to the East Coast of the United States by way of the Panama Canal.

From 1995 to 1998, HPH had significant acquisitions around the world, namely two ports in Panama, one port in the Bahamas and three in the UK. According to the article, “China is still on a Buying Spree,” HPH “aggressively pursuing acquisitions around the world as part of a drive by the HWL group to increase greatly the non-Asian portion of its revenues by the year 2000.”³⁹¹

Again, according to Meridith in an interview, HPH’s business strategy is to compete for concessions at “large gateway ports where it can increase its volumes quickly.” Meridith gave the purchase—in 2001—of the Philippines based port management company International Container Services Incorporated (ICTSI) International Holdings Corp. (IIHC), the overseas port development and holding subsidiary of ICTSI, and subsequently the purchase of the ports under its management at the time, as an example of a “big injection, both geo-graphically and in terms of throughput,” stating purchase included concessions at Karachi, Dar es Salaam, Ensenada, and Laem Chabang.³⁹²

In explaining HPH’s expansion from Hong Kong into mainland China, Meridith explains, “in line with the forces of a free market, Hong Kong operators have followed the migration of manufacturers into China. We simply follow the market.”³⁹³ Meridith stated that since shippers tend to want to move their product the shortest distance

³⁹¹ “China Still on a Buying Spree,” Asia Pacific Update, *Acquisition Monthly* (September 1998): 27.

³⁹² “Quiet, Giant Steps,” *Containerisation International: TERMINAL*, 2006, 60.

³⁹³ Daniel Olivier, Francesco Parola, Brian Slack and James J. Wang, “The Time Scale of Internationalisation: The Case of the Container Port Industry,” *Maritime Economics & Logistics* 9 (2007): 15.

possible, the shift to the mainland was necessary to be a viable option to shippers.³⁹⁴ HPH has the flexibility as well as the obligation to follow the market as a “pure” port terminal manager in order to stay viable.³⁹⁵ Conversely, carrier terminal managers are dependent on where the trade routes of their parent company are. In the case mentioned above, COSCO Pacific would also like move into mainland China since it is likely the COSCON would adjust its trade routes for the shift in location of manufactures consequently shifting the customer—the shipper—to mainland China.

The difference though is a company like HPH can attempt to predict where the market will shift to, or create a new market and branch into a new location relatively quickly. A company like COSCO Pacific could also anticipate a change in the market, or an emerging market and seek to branch out into that market, but it is not as likely COSCO Pacific would enter a new port prior to COSCON establishing a trade route which naturally delays any expansion. This is indicated to in a press release by COSCO Pacific stating it will continue to increase its investments in key overseas hub ports taking any opportunity that the global expansion of the container terminal industry presents, “on the back of the expanding container shipping fleet of COSCON and the enhanced partnerships with other major shipping liners in its terminal investment portfolio.”³⁹⁶

The answer then as to why China invested in the Latin American ports of Ecuador and Mexico, and not in the ports of Colombia can be found in the alignment of how Ecuador and Mexico allowed private foreign investment in its ports with how Chinese companies invested abroad which was incompatible with how Colombia allowed investment in its ports. Ecuador and Mexico opened to foreign investment in a way that the Hutchison Port Holdings port management company found it conducive to invest in Ecuador and in Mexico and therefore invested in Ecuadoran and Mexican ports in the

³⁹⁴ Daniel Olivier, Francesco Parola, Brian Slack and James J. Wang, “The Time Scale of Internationalisation: The Case of the Container Port Industry,” *Maritime Economics & Logistics* 9 (2007): 15.

³⁹⁵ Daniel Olivier, Francesco Parola, Brian Slack and James J. Wang, “The Time Scale of Internationalisation: The Case of the Container Port Industry,” *Maritime Economics & Logistics* 9 (2007): 15.

³⁹⁶ “Capt. Wei and the King of Belgium Attend the Terminal Opening Ceremony in Antwerp,” Company News, Media Center, COSCO Pacific, July 06, 2005, http://www.coscopac.com.hk/en/news.php?class_id=16&id=181&action=content.

early 2000s. On the other hand Colombia restricted its opening to foreign investment in a way that Hutchison Port Holdings port management company did not find it conducive to invest in Colombian ports in the 2000s, nor did any other Chinese port management company.

A. IMPLICATIONS

While the determining factor of where to invest may be based on business strategy aligning with openness to investment, the potential strategic benefits turn out to be more important than just business. Ports are central to maritime transportation and most trade in the world is done through maritime transportation. Latin American ports have opened to private and foreign investment and consequently have potentially opened to the deterioration of its national sovereignty, U.S. interests in the region, and international trade flows and the global economy. Investment by a Chinese company in Latin American ports can be detrimental because of the potential coercive leverage private entities holding a controlling stake in a port as is the case of the ports in focus for this thesis. The question of who is in control of a port is important in that the actor in control of maritime infrastructure can make decisions beneficial to the company and/or parent country of the company in control of the infrastructure but detrimental to trade flows which ultimately has an effect on both regional economies as well as economies around the globe.

Beginning with Colombia, a lack of Chinese investment in its ports should not be automatically deemed positive or a negative. A close look at the reasoning for the lack of Chinese investment in Colombian ports reveals the intention of the Colombian Government to retain a controlling stake in its ports, viewed as strategically important. However, in retaining a controlling stake in its ports, the Colombian Government has the responsibility not only to operate its ports to support the strategic goals of the country; it also has the responsibility to ensure the ports are being run effectively and efficiently in order to support economic growth through trade.

According to Holms, Gutiérrez de Piñeres, and Curtin, “foreign investment is an independent market-driven indicator of confidence in the long-term growth potential of

the country. For Colombia to grow, private sector and foreign investment must increase so that opportunities for the labor force are created.”³⁹⁷ Today, 83 percent of the stock of Sociedad Portuaria Regional de Buenaventura—that operates the largest terminal on Colombia’s Pacific coast—is privately owned and belongs to businessmen comprised of importers, exporters, port operators, shipping lines, unions, former port workers and individuals. The remaining 17% is in the hands of the public sector consisting of the Buenaventura’s Mayor’s Office and the Ministries of Transportation and Agriculture.³⁹⁸ Of the private investment, foreign investment includes investment from ICTSI, PSA and DP World. Specifically, ICTSI, through ICTSI Limited agreed on the development of a new container terminal in the Port of Buenaventura in July 2007.³⁹⁹ In 2009, DP World acquired a 19 percent stake in Sociedad Portuaria Regional de Buenaventura for U.S. \$150 million with the intention to buy up to 23 percent.⁴⁰⁰

They point out however, “Another long-term challenge to growth is the lack of transportation infrastructure... Resources used to fight the guerrilla conflict and combat illegal drugs are not being used to improve infrastructure. Without infrastructure development, the potential for growth is further hampered.”⁴⁰¹ The private—to include foreign—investment is needed to modernize the transportation infrastructure in ports. Though private and foreign investment is present in Colombian ports, it is apparently not enough. With increased private and foreign participation, three effects can potentially result. As mentioned above, with increased private sector and foreign investment come the opportunities for the labor force. Secondly, rather than funding necessary infrastructure improvements at ports, the public sector can use those funds instead on its

³⁹⁷ Jennifer Holmes, Sheila Amin Gutiérrez de Piñeres, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 46.

³⁹⁸ “History,” Sociedad Portuaria Regional de Buenaventura SA, Corporate Information, accessed November 8, 2014, <http://www.sprbun.com/informacion-corporativa/corporativa/historia.php>.

³⁹⁹ “Sociedad Puerto Industrial del Aguadulce S.A, Aguadulce, Colombia,” International Container Services International, Limited, accessed November, 8, 2014, <http://www.ictsi.com/operations/sociedad-puerto-industrial-del-aguadulce-s-a-spia-aguadulce-colombia/>.

⁴⁰⁰ Michele Labrut, “DP World takes 19% Stake in Colombian Terminal for \$150m,” SeaTrade Global, July 2013, 15, [http://www.seatrade-global.com/news/americas/dp-world-takes-19-stake-in-colombian-terminal-for-\\$150m.html](http://www.seatrade-global.com/news/americas/dp-world-takes-19-stake-in-colombian-terminal-for-$150m.html).

⁴⁰¹ Jennifer Holmes, Sheila Amin Gutiérrez de Piñeres, and Kevin M Curtin, *Guns, Drugs, and Development in Colombia* (Austin, TX: The University of Texas Press, 2009), 46.

security problems. And thirdly, once the infrastructure is improved there is potential for increase shipping traffic through the port which could mean an increase in revenue and an improvement in the Colombian economy in general.

Turning to Ecuador, in February 2010, HPH's TIDE withdrew from the project to develop the Port of Manta on which it had already spent U.S. \$20 million, "on the grounds that there are changes in the concession agreement, unilaterally imposed by the Ecuadorian Government, which TIDE finds unacceptable."⁴⁰² President Correa made claims that TIDE had fallen behind schedule in the project.⁴⁰³ Manta Port Authority (APM) took over running the project.⁴⁰⁴ TIDE explained that other foreign companies experienced difficulties with the Ecuadorian Government, namely Chevron Texas (US), Repsol (of Spain), Interagua (of the UK), Agip (based in Italy) and the Brazilian based construction firm Odebrecht.⁴⁰⁵ One source was quoted saying "Overall, I guess you could say there have been faults on both sides of this heated and aggressive argument, but as an Ecuadorian I worry about our image in the eyes of international investors."

To date, the Port of Manta is offering a concession for the development of the Port of Manta. The tendering process for the Port of Manta was launched in 2012, the first following the failed concession involving HPH, but cancelled when none of the nine companies to acquire the tender rules submitted bids.⁴⁰⁶ Rules were acquired by the following companies: Peru's Logiran and Andino Investment Holding, Chile's Ultramar

⁴⁰² "Turning TIDE—Terminal Investment, Especially in the Developing World, Can Be a Highly Risky Business," *Containerisation International: Terminal* 42, no. 5 (2009): 58.

⁴⁰³ "Turning TIDE—Terminal Investment, Especially in the Developing World, Can Be a Highly Risky Business," *Containerisation International: Terminal* 42, no. 5 (2009): 58.

⁴⁰⁴ "Turning TIDE—Terminal Investment, Especially in the Developing World, Can Be a Highly Risky Business," *Containerisation International: Terminal* 42, no. 5 (2009): 58.

⁴⁰⁵ "Turning TIDE—Terminal Investment, Especially in the Developing World, Can Be a Highly Risky Business," *Containerisation International: Terminal* 42, no. 5 (2009): 58.

⁴⁰⁶ Katherine Watkins, "Ecuador's US \$950 Million Manta Port Concession Prequalification Deadline Extended," *BN Americas*, February 6, 2014, <http://www.bnamericas.com/news/privatization/ecuadors-us950mn-manta-port-concession-prequalification-deadline-extended>.

and Empresas Navieras, Spain's Acciona, Colombia's Grupo Odinsa, The U.S.' Ports America, and Venezuela's Geohidra consultores and consortium Clover-Vialpa.⁴⁰⁷

A new tendering process for the U.S. \$951 million concession to expand and operate Port of Manta was launched in 2013.⁴⁰⁸ The 37-year concession consists of expanding Manta into a deepwater port with a 16.2m draft and a minimum capacity of 9Mt by 2051.⁴⁰⁹ Eight companies registered to participate in the onsite visit that APM carried out in December 2013 these companies were then required to submit prequalification documentation by February 3 with APM set to announce prequalified firms on February 21.⁴¹⁰ But following a request for more time from interested companies, APM has extended the deadline to February 28.⁴¹¹

Further, based on an OAS competitiveness study of Ecuadorian ports, "politicization of the ports, the lack of technology and the competition with other South American ports (Peru and Chile) has caused restrains in the port development of Ecuador."⁴¹² This indicates that what Ecuador is doing in terms of managing its ports is not working. Based on APMs re-attempt at offering the Port of Manta up for concession again, it seems that they recognize the need for private investment. And based off the companies that have shown interest there is a potential for foreign in the ports as well. Considering Ecuador's historical altercations with foreign private investors in Ecuador

⁴⁰⁷ Juan Andres Abarca, "Manta Port Concession Process to Relaunch Within Six Months," *BN Americas*, November 13, 2012, <http://www.bnamericas.com/news/infrastructure/manta-port-concession-process-to-relaunch-within-six-months1>.

⁴⁰⁸ Katherine Watkins, "Ecuador's US \$950 Million Manta Port Concession Prequalification Deadline Extended," *BN Americas*, February 6, 2014, <http://www.bnamericas.com/news/privatization/ecuadors-us950mn-manta-port-concession-prequalification-deadline-extended>.

⁴⁰⁹ Katherine Watkins, "Ecuador's US \$950 Million Manta Port Concession Prequalification Deadline Extended," *BN Americas*, February 6, 2014, <http://www.bnamericas.com/news/privatization/ecuadors-us950mn-manta-port-concession-prequalification-deadline-extended>.

⁴¹⁰ Katherine Watkins, "Ecuador's US \$950 Million Manta Port Concession Prequalification Deadline Extended," *BN Americas*, February 6, 2014, <http://www.bnamericas.com/news/privatization/ecuadors-us950mn-manta-port-concession-prequalification-deadline-extended>.

⁴¹¹ Katherine Watkins, "Ecuador's US \$950 Million Manta Port Concession Prequalification Deadline Extended," *BN Americas*, February 6, 2014, <http://www.bnamericas.com/news/privatization/ecuadors-us950mn-manta-port-concession-prequalification-deadline-extended>.

⁴¹² "Competitiveness Study on the Ecuadorian Ports," *Inter-American Bulletin of Ports* no. 20 (October 2008), Inter-American Committee on Ports of the Organization of American States, http://www.oas.org/cip/english/docs/newsletter/oct08_20.pdf.

both the Ecuadorian Government and any potential foreign investors can benefit from such foreign direct investment should they be able to come to an agreement mutually beneficial and both adhere to what was agreed to.

And finally of the case countries, so far the effects seen in Mexico as a result of HPHs investment in the main ports in Mexico have not only been positive but have been much more pronounced in a shorter period of time than expected. Reports of such rapid progress include:

Few shipping industry observers expected Mexico's ports to achieve so much so quickly. Less than two years ago, they watched and waited for government talks about privatization to spring into action. Now, these same observers see the remarkable progress. Change has engulfed Mexico's main container ports faster than anyone could predict. Two major terminal operators moved into Mexico, navigating vast opportunities for port development, and expansion took off.

New rail connections have been built, providing smooth flow for transport of goods to and from the ports. And more plans are in motion to make the rail connections even bigger and better. The result: a more efficient and productive port system that gives U.S. gateways a run for their money. 'The improvements in Mexican ports have been substantial,' said Rex Sherman, director of research and information services at the American Association of Port Authorities in Alexandria, Va. The ports are 'no longer prisoners of a political bureaucracy. They are put in a state where they can function like businesses and are encouraged to compete.'⁴¹³

It is important that the Government of Mexico ensure that the FDI in its ports are within a framework of foreign policy that do not allow its country to be stripped of natural resources to satiate China's continue need for natural resources and protect its workers from being put out of a job due to competition from China, especially as a result of the success of the HPH controlled ports.

Turning to U.S. interests in Latin America, Chinese hard and soft power in Latin America—hard power exhibited by port direct investment—has increased in a region traditionally dominated by U.S. influence. It is also important that the Government of the

⁴¹³ Susan Kreimer, "Arriba! Mexican Ports Enjoy An Infusion of Investment That Should Ensure Rapid Growth," *Journal of Commerce* no. 38: (2003): 84. The two major terminal operators referred to in this quote are HPH and SSA Marine Incorporated.

U.S. to maintain and improve relations with Mexico, both economically and politically speaking to help ensure port use coincides with regional interests, as well as national interests and global interests.

FDI specifically from HPH, Li Ka-Ching—HPH's owner—spent roughly U.S. \$1.5 billion buying 15 shipping container terminals 2000 to 2004. In 2004, HPH was the world's largest shipping container business in the world with a presence in 32 ports in 15 countries.⁴¹⁴ In 2004, more than 40 percent of all containers shipped from China left from an HPH terminal. In the same year, Li was the biggest foreign investor in the Bahamas.⁴¹⁵ Li's 1997 investment in the port operations in the cruise ship facility and container port led to his purchase of the Grand Bahama airport.⁴¹⁶ Also in 1997, HPH won the concession to operate the ports located at each end of the Panama Canal, the ports of Cristobal and Balboa.⁴¹⁷

In 2004, Li did not have investments in any U.S. port.⁴¹⁸ Lee in *Forbes* explains, "That's because U.S. ports are owned by the government, and Li is not interested in competing in countries where the government has such a dominant role."⁴¹⁹ She further states that not having a presence in the U.S. is very expensive considering that 80 percent of Li's cargo is bound for the U.S. market.⁴²⁰ However, COSCO has been jointly operating a terminal in the Port of Long Beach in Southern California since July 1, 2001.

⁴¹⁴ Josephine Lee, "Li Ka-Ching! Asia's Richest Man Puts the 'Port' in Portfolio," *Forbes*, March 29, 2004, 55.

⁴¹⁵ Josephine Lee, "Li Ka-Ching! Asia's Richest Man Puts the 'Port' in Portfolio," *Forbes*, March 29, 2004, 55.

⁴¹⁶ Josephine Lee, "Li Ka-Ching! Asia's Richest Man Puts the 'Port' in Portfolio," *Forbes*, March 29, 2004, 55.

⁴¹⁷ Josephine Lee, "Li Ka-Ching! Asia's Richest Man Puts the 'Port' in Portfolio," *Forbes*, March 29, 2004, 56; "Global Terminal Operators Continue to Expand through Internal Growth, Acquisitions and Joint Ventures," *The Journal of Commerce* (March 2005): 17.

⁴¹⁸ Josephine Lee, "Li Ka-Ching! Asia's Richest Man Puts the 'Port' in Portfolio," *Forbes*, March 29, 2004, 56; "Global Terminal Operators Continue to Expand through Internal Growth, Acquisitions and Joint Ventures," *The Journal of Commerce* (March 2005): 17.

⁴¹⁹ Josephine Lee, "Li Ka-Ching! Asia's Richest Man Puts the 'Port' in Portfolio," *Forbes*, March 29, 2004, 56.

⁴²⁰ Josephine Lee, "Li Ka-Ching! Asia's Richest Man Puts the 'Port' in Portfolio," *Forbes*, March 29, 2004, 56.

The JV between COSCO and SSA is called Pacific Maritime Services, LLC (PMS) and is owned by both COSCO Terminal America and SSA. COSCO holds 51 percent of the shares, and SSA shares 49 percent.

While China's presence in Latin America cannot automatically be determined a "threat" to U.S. interests U.S. policy with respect to China's presence in the Western Hemisphere "should focus on ensuring that China acts as a responsible stakeholder that contributes to the region's economic prosperity while respecting the democratic principles that are the guiding values of the Inter-American system."⁴²¹ The terminal operator SSA Marine incorporated mentioned as a major terminal operator in Mexico's main ports is an example of how the U.S. needs to stay involved in Mexico.

And finally, what are the implications of Chinese investment in Latin American ports to the world? With the increase in Chinese hard and soft power in Latin America political relationships are also being strengthened in parallel with economic relationships. Stefan Halper points out“

Over the past decade and a half, while few in the West were paying attention, Beijing has built a coalition of countries...that can be trusted to vote China's way in an increasingly clogged alphabet soup of international fora. It's a bloc reminiscent of the one the Soviet Union assembled during the Cold War, though focused on economic and trade advantages, not security issues...⁴²²

He goes on to explain how Chinese officials do not hesitate to use soft power coercively. He gives examples of ambassadors from African and Asia who have unofficially stated that China uses aid and trade to coerce them against U.S. initiatives, putting their economic projects in jeopardy if they do not comply.⁴²³ Militarily speaking,

⁴²¹ *The New Challenge: China in the Western Hemisphere: Hearing Before the Subcommittee on the Western Hemisphere of the Committee on Foreign Affairs, House of Representatives*, 110th Cong. (2008) (statement of Daniel P. Erikson, Senior Associate for U.S. Policy, Director of Caribbean Programs, Inter-American Dialogue,) 9, <http://www.gpo.gov/fdsys/pkg/CHRG-110hhrg42905/pdf/CHRG-110hhrg42905.pdf>.

⁴²² Stefan Halper, "Beijing's Coalition of the Willing for the West, Failed States are a Problem: For China, They're an Opportunity," *Foreign Policy*, June 21, 2010, http://www.foreignpolicy.com/articles/2010/06/21/beijings_coalition_of_the_willing.

⁴²³ Stefan Halper, "Beijing's Coalition of the Willing for the West, Failed States are a Problem: For China, They're an Opportunity," *Foreign Policy*, June 21, 2010, http://www.foreignpolicy.com/articles/2010/06/21/beijings_coalition_of_the_willing.

he states, it is not a goal of China to challenge the West, or even economically speaking, for now, due to the economic interdependence between China and the U.S. and Europe.⁴²⁴ According to Stefan Halper,

But we shouldn't dismiss China's efforts as merely a sophisticated reprise of the Soviet Union's failed bid for the loyalties of the global south. China is a capitalist dynamo, not a creaking autarky, and its market-authoritarian example is fast winning adherents around the world—while marginalizing the values that have informed Western progress for 300 years.⁴²⁵

We have all heard of China's peaceful rise. Just how long will it remain peaceful?

⁴²⁴ Stefan Halper, "Beijing's Coalition of the Willing for the West, Failed States are a Problem: For China, They're an Opportunity," *Foreign Policy*, June 21, 2010, http://www.foreignpolicy.com/articles/2010/06/21/beijings_coalition_of_the_willing.

⁴²⁵ Stefan Halper, "Beijing's Coalition of the Willing for the West, Failed States are a Problem: For China, They're an Opportunity," *Foreign Policy*, June 21, 2010, http://www.foreignpolicy.com/articles/2010/06/21/beijings_coalition_of_the_willing.

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APPENDIX EXAMPLES OF COSCON SHIPPING ROUTES

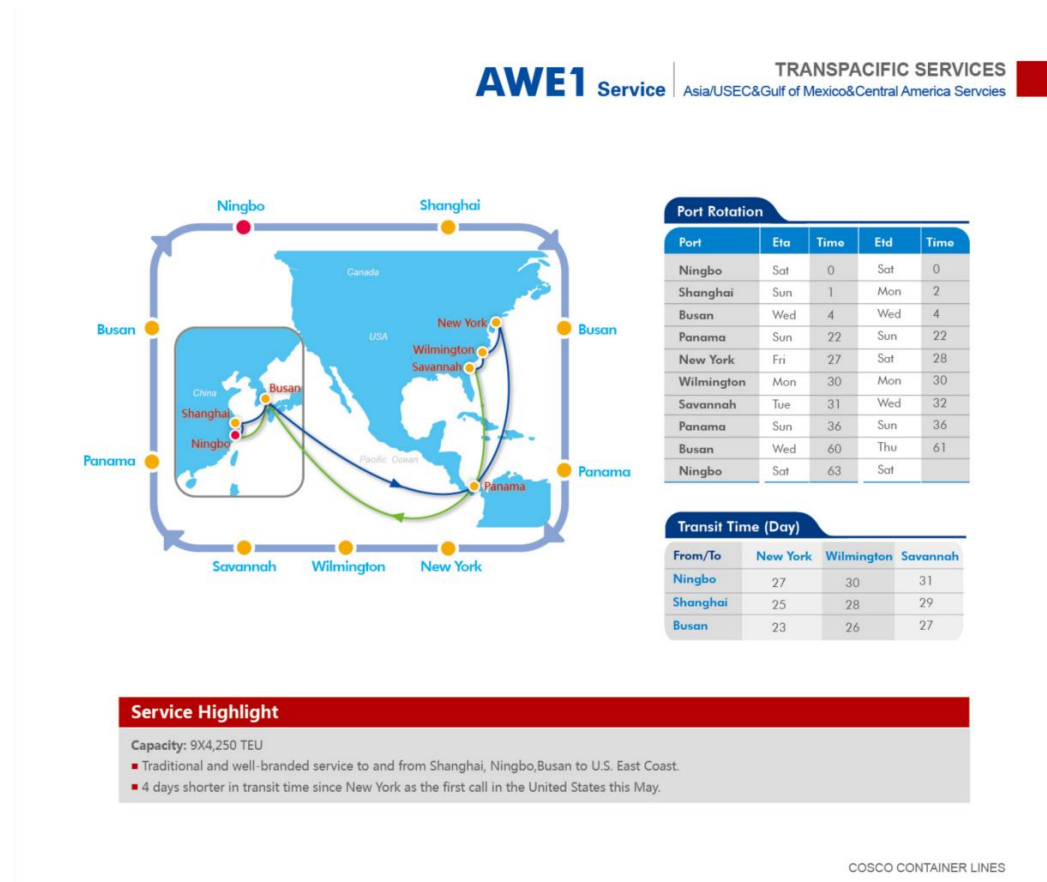


Figure 10. COSCON Transpacific Service⁴²⁶

⁴²⁶ “AWE1 Service,” Transpacific Services, Asia/USEC & Gulf of Mexico& Central America Services, Our Services, Service Map, COSCO Container Lines Company Limited, accessed November 8, 2014, <http://www.coscon.com/ourservice/servicepdf/EN/AWE1.pdf>.

Feeder services via Piraeus

- Extensive coverage from Piraeus by dedicated AFS-butterfly Balkan feeder service and MSX feeder service (connecting Turkey).

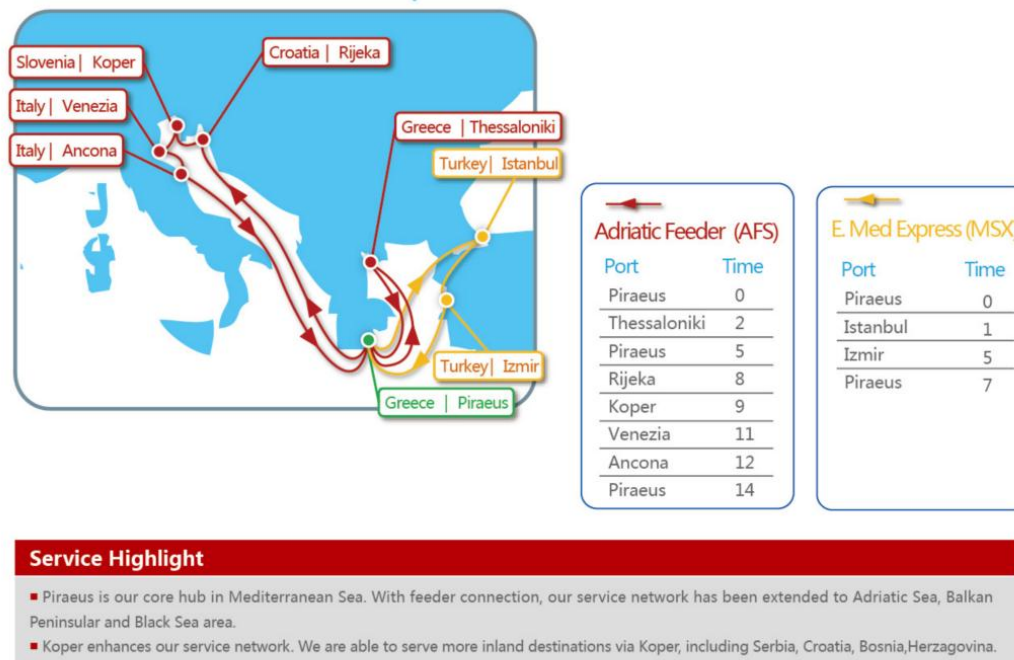


Figure 11. COSCON Feeder Service⁴²⁷

⁴²⁷ “Feeder Services via Piraeus,” European Trade Services, Asia/Mediterranean Services, Our Services, Service Map, COSCO Container Lines Company Limited, accessed November 8, 2014, <http://www.coscon.com/ourservice/servicepdf/EN/AFS.pdf>.

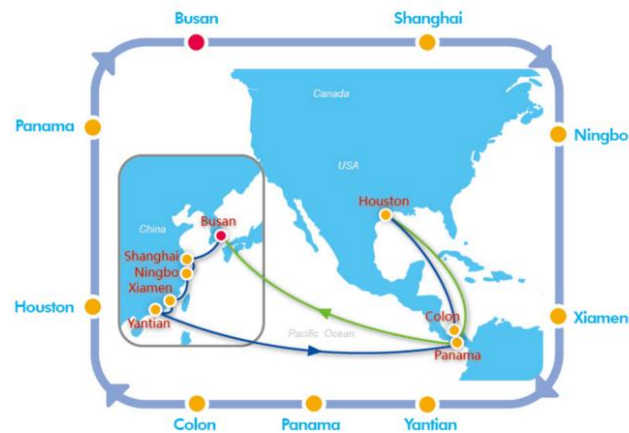


Figure 12. COSCON Asia-Med Service⁴²⁸

⁴²⁸ “MD-1—MD Service,” Asia/Mediterranean Services, Our Services, Service Map, COSCO Container Lines Company Limited, accessed November 8, 2014, <http://www.coscon.com/ourservice/servicepdf/EN/MD1-MD.pdf>.

TRANSPACIFIC SERVICES
Asia/USEC&Gulf of Mexico&Central America Services

Gulf of Mexico Service



Port Rotation				
Port	Eta	Time	Etd	Time
Busan	Sat	0	Sat	0
Shanghai	Sun	1	Mon	2
Ningbo	Tue	3	Tue	3
Xiamen	Thu	5	Thu	5
Yantian	Fri	6	Fri	6
Panama	Thu	26	Thu	26
Colon	Thu	26	Fri	27
Houston	Mon	30	Wed	32
Panama	Sun	36	Sun	36
Busan	Sat	56		

Service Highlight

- Capacity: 8X4,500 TEU
- Houston as the hub port to serve Gulf of Mexico.
 - Colon(Panama) as the tranship hub to serve Caribbean Sea.
 - Only 24 days from Yantian to Houston.
 - Stable and regular Service .
 - Sufficient space & equipment.

Transit Time (Day)

From/To	Colon	Houston
Busan	26	30
Shanghai	24	28
Ningbo	23	27
Xiamen	21	25
Yantian	20	24

COSCO CONTAINER LINES

Figure 13. COSCON Transpacific Services Gulf of Mexico Service⁴²⁹

⁴²⁹ “Gulf of Mexico Service, Transpacific Services, Asia/USEC & Gulf of Mexico& Central America Services, Our Services, Service Map, COSCO Container Lines Company Limited, accessed November 8, 2014, <http://www.coscon.com/ourservice/servicepdf/EN/GME.pdf>.

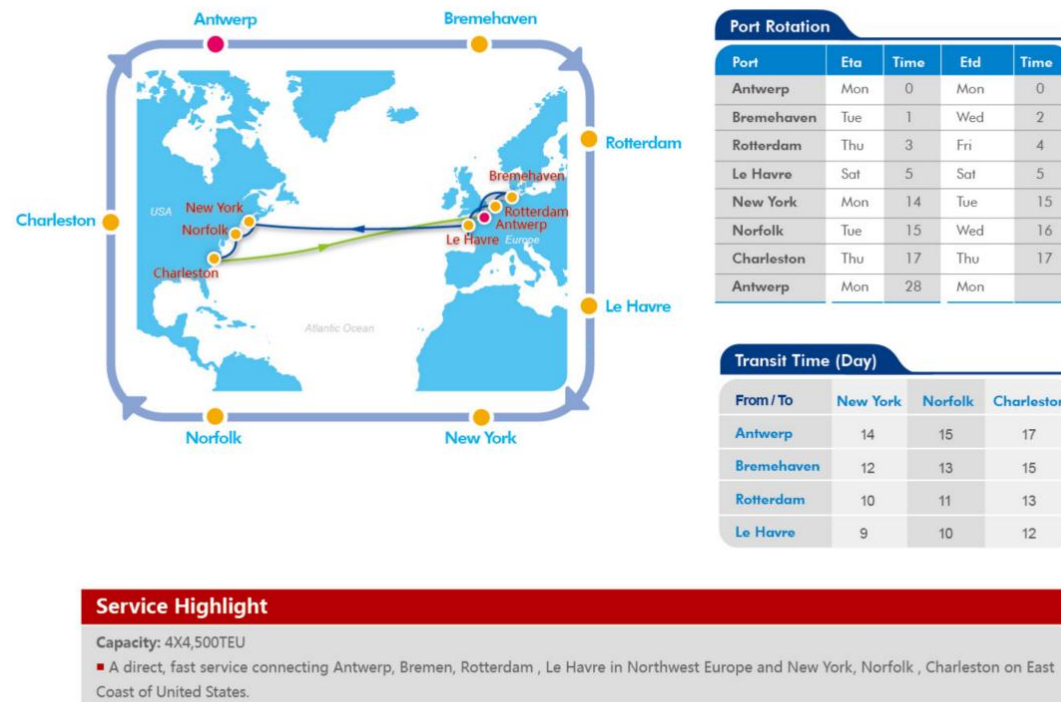
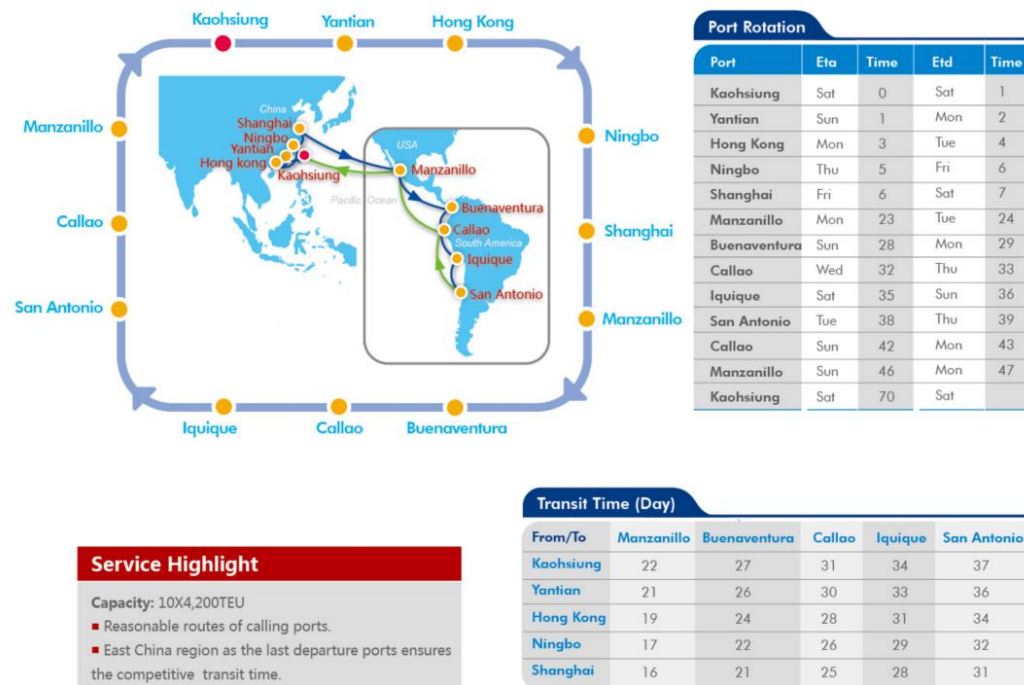


Figure 14. COSCON Europe Trade Services⁴³⁰

⁴³⁰ “TAE Service” Europe Trade Services, Transatlantic Services, Our Services, Service Map, COSCO Container Lines Company Limited, accessed November 8, 2014, <http://www.coscon.com/ourservice/servicepdf/EN/TAS1.pdf>.



COSCO CONTAINER LINES

Figure 15. COSCON WSA North South Services⁴³¹

⁴³¹ "WSA Service," North-South Services, Asia/South American Services, Our Services, Service Map, COSCO Container Lines Company Limited, accessed November 8, 2014, <http://www.coscon.com/ourservice/servicepdf/EN/WSA.pdf>.

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